Revenue

The District's economy completed four straight years of modest, but solid, economic growth by the end of FY 2000. Its economic assets as a place to both live and work expanded during this period. For example, the latest Census information suggests that the city's population loss since 1990 is at least 10 percent less than estimated. The real estate market is booming and retail sales and employment are both up.

In addition, various new initiatives put forth by local leadership are reshaping the city's image and generating new enthusiasm about the nation's capital. Fueled by the economy and improved tax administration, tax revenues have been growing, though most recently at a somewhat slower pace than economic activity. The result is four consecutive years of budget surplus. The requirements of the 1995 Financial Responsibility and Management Assistance Act are satisfied and the stage is set for the end of the Control Period.

The outlook for FY 2001-2005 is for continued modest real economic growth coupled with a continued increase in revenue collections. The economic assets of the District will continue to grow and the fiscal health of the District will continue to improve.

That is the good news; there are reasons for caution concerning this outlook, however. The District is vulnerable to national economic changes such as rising interest rates that affect consumer spending for travel, automobiles, housing, and other "big ticket" items. Regionally, as the District economy becomes more competitive, it also will face stronger challenges from neighboring rivals. And locally, continued recovery of the District's public service delivery system is critical to sustaining economic growth.

Perhaps an even more important reason for caution is that the District's tax system does a poor job of harnessing its economic activity to generate increased revenues. District taxes often do not capture important areas of economic growth. A part of the problem is that the District can only tax about one third of the income produced within its boundaries. In addition, the tax structure has not kept pace with the changes in technology that are driving economic growth. Finally, some of the District's taxes are simply unstable revenue sources.

The Economic and Revenue Outlook

Gazing into the economic future is difficult under the best of circumstances. Doing so for a city surrounded by rapidly growing suburbs dependent on high tech dot-coms is downright treacherous. As a part of the region, the District is becoming a more and more attractive place to live and work. About 3 years ago, a booming national economy brought new economic opportunities to the District. At the same time, new leadership in the District rekindled faith in the District as a place to live, to work, and to earn a positive return on investment. Crime is down. Schools are improving, even if more slowly than some would like. The city is receiving national attention as a top place to enjoy urban life. In addition, traffic congestion in the suburbs is making it more and more difficult to get from place to place. The District's economy is poised to carry the momentum of the recent past into the next several years with continuing moderate growth of employment and economic activity.

The District is growing, but the areas of strength in the economy are only weakly connected to the District's tax base, suggesting trouble meeting revenue needs over the long-term. This section reviews the facts, identifies some of the most important economic assets of the District and reviews some of the imbalance between the District's tax system and its economic activity.

The Facts

Jobs located in the District are increasing and the economic base of the District is changing. Fueled by strong job growth in the private sector, jobs in the District increased in FY 2000 for the first time since FY 1990. Along with the growth the job mix has changed. The economic base of the District is shifting toward the service sector. From FY 1997 to FY 2000, the service sector added 11,000 wage and salary jobs, while the government sector lost 12,000 jobs.

Real District personal income and Gross State Product (GSP) continue to grow. Although modest compared to the blistering growth in its suburbs and the U.S. as a whole, real personal income and GSP grew at a healthy rate of 2.4% and 3.1%, respectively, per year between FY 1997 and FY 2000.

More District residents now have jobs. Resident employment in the District increased in FY 1998 for the first time in 8 years. Between FY 1990 and FY 1997 the number of employed District residents fell by 22%; however, from FY 1997 to FY 1999 the number of working residents increased by 26,000 persons, about 11%, lowering the unemployment rate and pushing up the labor participation rate. The average unemployment rate in 2000 was 5.6%. Although high compared to a 2.3% unemployment rate in the Washington Metro Area, it is the District's best performance since 1989.

Population decline has slowed down; population stability is within reach if it has not already occurred. Population decline continues to taper off as people find more reasons to be city residents. A better economy, better services, lower crime rate, and shorter commutes are all important reasons. The estimated decline of 2,400 in total population from 1998 to 1999 was the lowest in 12 years. The latest population count of 572,059 is about 10% higher than the previous Census estimate for 1999, suggesting that a turnaround in population loss might already be under way.

More income taxpayers are moving into than out of the District. In 1999, 123 more taxpayers moved into the District from another U.S. jurisdiction than moved out (Unfortunately, the number of exemptions leaving the city still exceeds the number coming in). In 1996, the number moving out exceeded the number moving in by 5,200.

The District is attracting more income tax filers in upper income brackets. The number of tax filers making more than $100,000 and making between $50,000-$100,000 increased by 2,000 per year for each income class between 1995 and 1998. Meanwhile, families making less than $20,000 decreased 3,700 per year during the same period.

Office space is increasing and the vacancy rate is low. The Class A office vacancy rate at the end of 2000 was 3.7%, the lowest in the region. New office space is being developed. More than 2 million square feet of space for lease was added in fiscal year 2000. Over 4 million square feet of space is currently under construction or renovation.

Housing markets are strong. Demand for housing in the District is strong. In 1999, single-family housing starts and existing home sales both surged to their highest levels in recent memory.

Strong demand, coupled with a shortage of single-family homes for sale, has resulted in significant price appreciation. In fiscal year 2000, single-family housing sales were up 12.5% and average prices increased 8.9% over FY 1999.

Additional Evidence

In addition to these facts, anecdotal evidence suggests a very healthy economic outlook for the District. The number of construction cranes is virtually growing across the city. The hotel industry is thriving with about a 1 percent growth in rooms and a 2 percent growth in demand annually. Commercial development in downtown remains strong with over 4 million additional square feet to come on line. This new space is 70 percent leased and is to be delivered by 2003.

While the retail sector is already thriving, District residents have the income to support even more retail sales. Substantial buying power in the District leaks into the shopping malls and other retail locations in surrounding jurisdictions. No wonder the District's retail sector is significantly smaller than that of the typical U.S. jurisdiction.

Per capita income in the District is about 40% above the national average. With this substantial additional spending power, District residents could support a larger-than-average retail sector, reaching into all neighborhoods. Successfully establishing this retail would have many additional benefits, such as encouraging population stability among pre- and post-middle age singles and couples. These groups typically are concerned with retail and recreational activities as amenities in their choice of location.

A larger retail sector also would increase the "multipliers" arising from other economic activity in the District. These multipliers summarize the extra economic benefit from a new job or investment. For the District, these extra economic benefits are quite small because new investment spending quickly dissipates into suburban households and shopping. For example, employees of a new business will spend little of their new income in the District and, instead, go just a few Metro stops away to a mall in Maryland or Virginia. The income and profits at the malls are likely to go to residents of other states, not back to District residents. By adding more retail to the District, we may garner more of these spin-off benefits back to the city.

Overcoming Obstacles to Increased Economic Opportunity

The District's recent growth has already led to some problems. Lower-income families are having difficulty finding affordable housing. Higher-income families are simply bidding up the price of traditional affordable housing. Retail, offices, and hotels are all held back by the lack of workforce in the $20,000 to $40,000 per year income level.

Targeted policies to support education and training are important tools for overcoming these obstacles. The District will have to be very selective, however, and target employment policy to stimulate activities that would not otherwise occur on their own and are spurred by limited government support. Government resources are never sufficient to support all possible claims for development while simultaneously providing the important services needed by residents.

Improving the training and marketable skill levels of District residents has substantial economic benefit. Whether by making the District more attractive for new residents with good skills, or by increasing the skills of current residents, or both, the economic rewards for economic growth will be even greater. Higher skills will bring greater wage incomes and an even stronger retail base. Higher skills and incomes lead to more home ownership and a population more deeply invested in our community. Income tax and sales and use tax revenues could be stronger and more reliable, allowing for greater fiscal stability of the District government.

The District's Future Revenue Stream

Growth of the economy may not be matched by growth of the District's revenue stream. Even with the benefits of a stronger economy, the District government may struggle for financial stability. The apparent contradiction results from the real disconnection between the District's economy and its tax base. After a detailed discussion of the District's different revenue sources, this chapter will return to this point and identify tax sources that can be counted on to grow in the future and those that are not reliable.

In its 2000 survey, the Fortune magazine ranks the Washington Metro Area as the fourth best city for doing business.

The number is based on the BLS's ES-202 data, which covers about 92% of total civilian wage and salary employment in the District. The increase in total wage and salary employment in service sector based on the BEA data between 1997-1999 is 20,000.

These numbers are based on DRI's quarterly estimates for real GSP and personal income.

Assumptions for the 2002–2005 Revenue Estimates

The revenue estimates for the period FY 2002-2005 assumes that the District economy will continue to grow at a modest rate. The District's tax system will capture some, but not all, of that growth. Employment is rising, as the federal government is stabilizing and employment in the service sector continues to grow. The real estate market is booming, led by a strong housing sector and large construction projects. Public services are improving and the city's public finances are back on track under the stewardship of Mayor Anthony Williams. These improving economic and political situations in the city are beginning to attract business and residents back.

Table 1 provides the economic assumptions underlying the revenue estimates.

Short Term (Fiscal Years 2001-2002)

Growth in the U.S. economy has begun to slow. Although few economists predict a recession, the economy in FY 2001 is expected to grow at a much more moderate pace as earnings decrease, the stock market sags, and lower consumer confidence depresses consumer spending and business investment. Inflation should not be a threat as the economy slows down and energy prices are stabilized. The outlook for FY 2002 seems to be brighter as many economists anticipate that the Federal Reserve's campaign to cut interest rates in 2001 will stop any real decline in economic activity. The U.S. economy is expected to grow at 2.2-2.6 percent and 3.2-3.6 percent in FY 2001-2002.

The outlook for the Washington metropolitan regional economy is more favorable. Although the regional economy is not immune from a slowdown in the national economy, the regional economy is forecasted to continue to grow above the national average, anchored by a strong demand base in the federal government and continuing growth in northern Virginia and suburban Maryland. Real gross regional product is expected to grow 3.5 percent and 3.7 percent in FY 2001and 2002 - somewhat lower than last year, but still healthy robust growth.

The District's economy should be able to continue its moderate growth with modest gains in employment. There are several factors that make the District less vulnerable to a potential national downturn. First, the improving conditions in the city and increasing traffic congestion in the suburbs are attracting people and businesses, adding jobs and consumer base. Second, several development projects will help to maintain employment growth. Some of the projects either currently under way or planned include the new Convention Center, the Navy Yard, Gallery Place, Newseum, a new Metro station at New York Avenue, and several hotel projects. New openings of Kmart and Giant Foods will strengthen the District's retail base significantly. The District is also expected to see more high-tech activities, particularly in the NoMA (north of Massachusetts Avenue) corridor. The real estate market is expected to remain strong with low office vacancy rate and strong housing demand fueling more construction.

Real gross state product and real personal income in the District are forecast to grow about 1 percent and 2 percent, respectively, in FY 2001 with growth picking up in FY 2002 as the national economy improves. Real personal income is forecast to grow at 3 percent in FY 2002 as the economy picks up and population grows. Wage and salary employment is expected to grow at an annual average of 0.9 percent adding about 5,900 jobs a year for FY 2001 and FY 2002. Inflation is expected to remain in check with 2.6 average annual inflation during the period.

Long Term (Fiscal Years 2003-2005)

In looking further ahead to FY 2003 through FY 2005, the key economic issues are how much the national economy can continue to expand and the extent to which improving public services will stimulate economic development in the District. Nationally, the Congressional Budget Office (CBO) and the Blue Chip consensus forecast all anticipate healthy average annual growth in real GDP of 3.1 percent per year between FY 2003

Table 1

The District Economy: Estimated Key Variables for the Forecast Period FY 1997–FY 2005

(adjusted for 2000 Census)

	FISCAL YEAR ESTIMATES								
	1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Gross State Product ($ billion)	49.94	53.21	56.53	60.59	63.14	66.42	70.01	73.58	77.26
	3.1%	6.6%	6.2%	7.2%	4.2%	5.2%	5.4%	5.1%	5.0%
Real Gross State Product (billions of $96)	49.10	51.22	52.98	55.28	55.89	57.05	58.50	59.80	60.97
	0.7%	4.3%	3.4%	4.4%	1.1%	2.1%	2.5%	2.2%	2.0%
Personal Income ($ billion)	19.42	20.41	21.53	22.72	23.85	25.12	26.50	27.85	29.24
	3.8%	5.1%	5.5 %	5.5%	5.0%	5.3%	5.5%	5.1%	5.0%
Real Personal Income (billions of $96)	19.12	19.87	20.64	21.28	21.78	22.36	23.01	23.59	24.14
	1.6%	3.9%	3.9%	3.1%	2.4%	2.7%	2.9%	2.5%	2.4%
Per Capita Income ($)	33,742	35,633	37,646	39,682	41,579	43,692	45,999	48,244	50,551
	4.5%	5.6%	5.7%	5.4%	4.8%	5.1%	5.3%	4.9%	4.8%
Real Per Capita Income ($96)	33,222	34,677	36,085	37,167	37,964	38,894	39,945	40,871	41,777
	2.3%	4.4%	4.1%	3.0%	2.1%	2.4%	2.7%	2.3%	2.2%
Population (‘000)	575.7	572.9	572.0	572.5	573.7	574.9	576.1	577.3	578.5
	-0.6%	-0.5%	-0.2%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%
Households (‘000)	246.9	246.3	246.5	247.5	249.5	250.4	250.8	251.5	252.6
	0.2%	-0.2%	0.1%	0.4%	0.8%	0.4%	0.2%	0.3%	0.4%
Civilian Labor Force (‘000)	281.2	290.9	307.5	310.0	312.0	313.1	314.6	316.7	318.9
	-3.9%	3.4%	5.7%	0.8%	0.7%	0.4%	0.5%	0.7%	0.7%
At-Place Employment (‘000)	619.0	614.6	620.5	644.6	651.0	656.4	663.5	669.2	675.4
	-1.4%	-0.7%	1.0%	3.9%	1.0%	0.8%	1.1%	0.9%	0.9%
Resident employment (‘000)	259.4	264.7	286.6	292.8	294.8	295.2	297.4	299.6	301.6
	-2.9%	2.0%	8.3%	2.2%	0.5%	0.3%	0.8%	0.7%	0.7%
Unemployment Rate	7.8%	9.0%	6.8%	5.5%	6.2%	6.5%	6.3%	6.3%	6.3%
Housing starts	65	112	777	715	750	850	900	950	1,000
Housing Stock Total (‘000)	266.7	264.8	263.7	263.2	263.0	262.7	-263.1	263.6	264.3
	-0.7%	-0.7%	-0.4%	-0.2%	-0.1%	0.1%	0.1%	0.2%	0.3%
Washington Area Consumer Price Change	+2.4%	+1.1%	+2.3%	+3.4%	+2.6%	+2.6%	+2.6%	+2.6%	2.6%

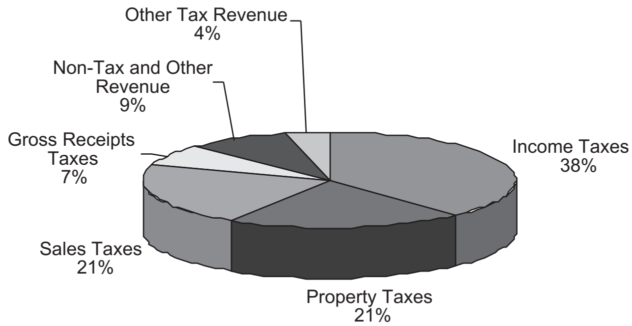
Source: ORA based on (1) Standard and Poor’s DRI February 2001 and Economy.com’s March 2001 historical data (complied from federal government sources) and forecasts for the District of Columbia, (2) National economic projections by the Congressional Budget Office (January 2001) and Blue Chip Economic Indicators (April 2001), (3) D.C. Office of Employment Services labor market information as of February 2001, and (4) U.S. Bureau of the Census data, including housing starts, the 2000 Census count for D.C., and prior Bureau estimates of housing units, households, population, and population projections.

NOTES:

(1) In late December 2000 the U.S. Bureau of the Census released its April 2000 Census count of D.C. population. The count of 572,059 is about 10% greater than the Census Bureau had been estimating. Most details of the population count are not available, and the ramifications of the higher population on other economic values such as households, labor force, and personal income in the District will only become reflected in official statistics over the next year or two. This table represents ORA’s initial attempt to scale key variables for the D.C. economy to the new population estimate using ratios from Census and Standard and Poor’s DRI, inc. Because of these changes to the years 1997 through 1999, these years are also considered to be estimates.

(2) The estimates assume no U.S. recession.

Figure 1
Estimated General Fund Revenue in FY 2002



and FY 2005. DRI also forecasts the growth rate of the Washington metropolitan region to continue to exceed the national average, although factors such as the shortage of skilled labor for technology-oriented industries could restrain this growth.

With a strong regional economy and an increasing federal surplus, the District economy is expected to remain on solid ground. The service sector should continue to be the engine of growth in the District, although there will be increasing activities in the retail sector with revitalization of the downtown area. The opening of the new Convention Center in 2003 should boost the city's tourism industry. The housing market is expected to remain strong as improving conditions in the city continue to attract new residents. However, the commercial real estate market is anticipated to slow down as recent commercial development in downtown is completed by 2003. Led by the service sector, jobs in D.C. and resident employment are assumed to increase by about 6,300 and 2,100 positions per year during the FY 2003 to FY 2005 period respectively, and inflation-adjusted gross state product and personal income are expected to increase at average annual rates of 1.0 percent and 0.7 percent respectively.

Revenues in FY 2000

FY 2000 brought overall growth in tax revenue of 8.5 percent.

- The strongest growth was in the income taxes (14.4 percent), which was fueled by the 31 percent increase in unincorporated business income tax. This strength is attributed to business activity in the property management and construction industries, both benefiting from a strong underlying economy. Corporate and individual income taxes increased 16 percent and 13 percent respectively over their FY 1999 levels.
- Sales taxes were also a strong segment of the revenue base in FY 2000, with an 8.3 percent increase over FY 1999. The majority of this increase came from general sales tax, which benefited from a stronger retail environment, and grew by 8.1 percent.
- Gross receipts taxes grew by 2.3 percent over the prior year, with strength in public utility taxes and insurance premiums taxes offsetting weakness in the toll telecommunications tax.
- Property taxes grew by 1.9 percent over FY 1999. Personal property was the only area that experienced a decline, and most of the decline is attributable to the phase-in of rate reductions under the Tax Parity Act of 1999.
- Deed taxes were the only major source experiencing weakness in FY 2000, decreasing 10.5 percent in FY 2000. This decline is related to a decrease in property turnover because of the large number of properties that have been sold in the recent past.

Revenues in FY 2001–FY 2005

General fund revenue to finance operating fund expenditures for FY 2002 is estimated to be $3,555,889,000, representing an increase of $97.3 million over the FY 2001 revised estimate of $3,458,601,000. In FY 2002, estimates of dedicated revenues include: Arena Fee collections ($9.0 million); Convention Center revenue ($65.3 mil-

TABLE 2

General Fund, Local Revenues by Source
FY 2000 Actual, FY 2001 – 2005 Estimates and Projections

($ Thousands)

Revenue Source	Actual FY 2000	Rev. (5/01) FY 2001	Rev. (5/01) FY 2002	Proj. FY 2003	Proj. FY 2004	Proj. FY 2005
Real Property	610,896	606,551	680,964	729,907	781,388	806,337
Pers. Property	70,133	54,090	53,682	54,708	55,592	56,436
Public Space	11,752	10,792	11,385	11,780	12,200	12,630
Total Property	**692,781**	**671,433**	**746,031**	**796,395**	**849,180**	**875,403**
General Sales (gross)	640,212	704,000	751,037	799,844	848,136	890,543
Convention Ctr Transfer	(54,524)	(61,248)	(65,340)	(69,586)	(73,788)	(77,477)
General Sales (net)	585,688	642,752	685,697	730,258	774,348	813,066
Alcohol	4,779	4,940	4,810	4,810	4,810	4,810
Cigarette	17,177	17,587	17,000	17,000	17,000	17,000
Motor Vehicle	36,693	31,904	31,000	31,000	31,000	31,000
Total Sales	**644,337**	**697,183**	**738,507**	**783,068**	**827,158**	**865,876**
Ind. Income	1,077,346	1,041,691	1,112,524	1,153,053	1,182,899	1,256,035
Corp. Franchise	190,594	267,500	181,100	174,000	174,900	182,240
U.B. Franchise	70,624	71,282	67,453	73,837	78,958	78,808
Total Income	**1,338,564**	**1,380,473**	**1,361,077**	**1,400,890**	**1,436,757**	**1,517,083**
Public Utility	132,849	144,850	152,480	156,445	160,512	164,685
Toll Telecomm.	48,280	53,225	59,000	59,000	59,000	59,000
Insurance Prems.	30,882	32,000	33,000	34,000	35,000	36,000
Total Gross Rec.	**212,011**	**230,075**	**244,480**	**249,445**	**254,512**	**259,685**
Estate	35,992	45,670	29,887	28,000	28,000	28,000
Deed Recordation	60,418	69,481	69,481	66,007	62,707	59,571
Deed Transfer	44,660	53,592	53,592	50,912	48,367	45,948
Econ. Interests	540	500	500	500	500	500
Total Other Taxes	**141,610**	**169,243**	**153,460**	**145,419**	**139,573**	**134,020**
TOTAL TAXES	**3,029,303**	**3,148,407**	**3,243,555**	**3,375,217**	**3,507,181**	**3,652,067**
Licenses & Perm.	43,754	41,165	43,336	44,463	45,619	46,805
Fines & Forfeits	53,216	52,990	60,040	61,601	63,203	64,846
Charges/Services	37,257	63,111	49,928	39,940	40,978	42,044
Misc. Revenue	120,896	53,883	72,030	73,903	75,825	77,796
TOTAL NON-TAX	**255,123**	**211,149**	**225,334**	**219,907**	**225,624**	**231,490**
Lottery	69,450	69,000	70,000	70,000	70,000	70,000
Federal Project Funds	23,576	30,045	17,000	0	0	0
TOTAL OTHER	**93,026**	**99,045**	**87,000**	**70,000**	**70,000**	**70,000**
LOCAL FUNDS	**3,335,138**	**3,458,601**	**3,555,889**	**3,665,123**	**3,802,805**	**3,953,557**

lion); and the Motor Fuel Tax for the Highway Trust fund ($31.0 million). Water and Sewer Authority revenue is estimated at $253.8 million.

Factors Underlying Current Revenue Estimates

While the outlook for the forecasting period, FY 2001-FY 2005, is positive for the District's economy, with real growth in gross state product and personal income, it also is cautious, with only modest improvements in any economic category. The economic signs are good for D.C. with continued strength in high-end office space and in the demand for single-family housing.

Yet D.C. is vulnerable to national economic changes such as rising interest rates that affect consumer spending for travel, automobiles, housing, and other "big ticket" items. And locally, the recovery of D.C.'s public service delivery is critical to sustaining economic development. These are all in the mix of considerations that shape the long-term revenue projections.

Finally, the activity to re-engineer the government of the District of Columbia is influencing the revenue stream. Specifically, the District has made multiple decisions to reduce tax rates, change tax bases, and improve the tax structure. Ongoing implementation of the Tax Parity Act will incrementally reduce revenue each year until fully implemented in FY 2004.

The long-term projections show 2.8 percent growth in General Fund revenue in FY 2002, 3.1 percent in FY 2003, and 3.8 percent in FY 2004. These changes, which do not include any Tobacco Settlement funds, are adjusted for all policy decisions including the rolled-in tax law changes under the Tax Parity Act.

Forecasting Risks

As with any predictions of the future, these will be in error; our goal is to minimize the extent of the error. Small risks include deviations from the forecast rate of increase in GSP and personal income – 1 percent error in these factors would adjust the estimates by tens of millions of dollars from income and sales taxes. A recession or growth much more robust than that forecast would have a major impact on these estimates. A recession that begins immediately and deepens for some months could reduce FY 2002 revenues by $100 million or more; however, no recession of any size is forecast at this time. Alternatively, if the local economy and income grow 2 percent more than forecast and financial markets have a strong rebound, revenues would be substantially above the estimates. Finally, the level of voluntary compliance and the possibility of writing off receivables both have significant potential to swing revenues either up or down.

Restrictions Imposed by the Budget and Revenue Estimating Cycle

The revenue estimating cycle of the District of Columbia is both unique and cumbersome. Unlike other jurisdictions, each budget must be approved by the U.S. Congress, requiring a long lead-time between budget preparation and execution, whether the budget is original or a proposed supplement to an already adopted budget. During a budget year, if revenue is stronger than expected, the District cannot adjust expenditures upward except by going through this lengthy process. Some years this can be combined with the budget submission for the upcoming year – although many months of delay in approval can limit the utility of a requested supplement. Otherwise, the District must make-do with a revenue estimate that is completed 18 or more months before the actual revenue is due. And even then, a meaningful fraction of the revenue is actually identified and accounted for after all expenditure plans are long since completed.

As a consequence, the District faces more uncertainty about revenue and expenditures than other cities and states. A lot happens in 18 months to the population, the economy, and the policy environment. Other cities and states have mechanisms for adjusting to these changes. The District would benefit by having an expeditious process for adjusting expenditures in cases where revenues are materially different than initially forecast.

Other taxing jurisdictions exercise their option for interim adjustments. Maryland, for example, makes an initial revenue estimate six months before the start of the fiscal year, a revision three months later, and a mid-course correction five months into the fiscal year so that expenditures can be changed if appropriate.

Specific Revenue Sources

The following sections discuss specific taxes and other revenue sources and provides estimates for these revenues through FY 2005.

Property Taxes

Real Property

The District's real property tax is similar to that imposed by local jurisdictions throughout the United States. Real property is assessed at 100 percent of its market value and taxpayers are billed twice a year. In FY 2000, 18.3 percent of general fund revenues came from real property taxes with 19.2 percent expected in FY 2002. Table 3 details total property tax revenues for fiscal years 2000 through 2005.

There are two major differences in the District's real property tax and real estate taxes imposed by other local jurisdictions. The first difference is that in the District, properties are divided into separate tax classes. The District currently has four real property tax classifications, each of which is taxed at a different rate depending on the use of the real property. (See Table 6)

The second major difference is that a relatively large proportion (approximately 42 percent) of real property in the District is exempt from paying the District's real property tax. Tax exempt properties include federally owned property, District government owned property, property owned by non-profit organizations, embassy property, cemeteries, educational facilities, and others.

The tax parity act and the real property tax.

The Tax Parity Act of 1999 moved toward minimizing the differences between the District's real property tax and real estate taxes imposed by other jurisdictions. The Act will reduce the number of real property tax classes to two by FY 2002. In FY 2002, Class 1 shall consist of all residential property and will be taxed at the rate of $0.96 per $100 assessed value beginning in FY 2002. The homestead exemption and senior citizen reductions currently available to District taxpayers will remain. Class 2 property will consist of all property that is not residential (current classes 3 and 4). Beginning in FY 2002, all class 2 property will be taxed at a rate of $1.85 per $100 of assessed value. It is estimated that provisions of the Tax Parity Act will lead to an estimated $99.5 million reduction in real property tax collections by FY 2003 (compared to estimated collection under the FY 1999 rates).

The first phase-in of the new rates adopted under the Tax Parity Act became effective for FY 2000 on October 1, 1999. Table 6 highlights changes in real property tax rates by tax class for fiscal years 1999 through 2002.

Each year the District dedicates a percentage of real property tax collections to pay the principal and interest on its General Obligation Bonds. For FY 2001, that percentage is 70 percent. The dedication of real property tax revenues to General Obligation Bonds may be increased by the Tax Parity Act rate reductions.

Real property tax assessments

In Tax Years (TY) 1999, 2000 and 2001 the District operated under a triennial assessment system. Under this system, properties in the District were divided into three triennial groups (tri-groups) – each representing roughly a third of the total value of real property in the District – for assessment purposes. Increases in assessed value are phased-in over a three-year period. Increases in assessed value asso-

TABLE 3

Property Tax Revenues, Fiscal Years 2000 Through 2005 (Actual and Projected)

($ Thousands)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Real Property	610,896	606,551	680,964	729,907	781,388	806,337
Personal Property	70,133	54,090	53,682	54,708	55,592	56,436
Public Space	11,752	10,792	11,385	11,780	12,200	12,630
Total:	**692,781**	**671,433**	**746,031**	**796,395**	**849,180**	**875,403**

TABLE 4
Real Property Tax Rates (Effective for FY 2001)

Real Property Tax Class	Tax Rate
Class 1 (owner-occupied)	$0.96 per $100 of value
	$0.81 per $100 value (effective rate after $30,000 homestead exemption)
Class 2 (renter-occupied)	$1.15 per $100 of value
Class 3 (hotel, motel)	$1.85 per $100 of value
Class 4 (commercial)	$1.95 per $100 of value

ciated with new construction or improvements to existing properties are immediately taxed at their full value. Reductions in assessed value are realized immediately. With the completion of reassessments for properties in Tri-Group 3 in TY 2000 for TY 2001 billing, the District completed one full triennial cycle. Properties in Tri-Group One were reassessed in 1998 for TY 1999 billing. Properties in Tri-Group Two were reassessed in 1999 for TY 2000 billing. Table 7 details assessment changes for each tri-group.

The District's triennial assessment cycle reduces the annual growth rate of the real property tax base because increases in assessed value are not fully realized at the time of reassessment. The immediate reduction in tax liability for properties that decrease in assessed value further reduces the growth rate of the real property tax base. When combined, these factors reduce the volatility and the future growth potential of the real property tax.

The FY 2002 revenue estimate for the real property tax assumes that triennial assessment will effectively sunset at the close of TY 2001, and that the District will phase-in into annual assessments in FY 2002. Under this scenario, all real property in the district will be reassessed on an annual basis by FY 2004. This means tri-group 1 properties will return annual assessment in FY 2002, tri-group 2 in FY 2003 and tri-group 3 in FY 2004.

TABLE 5
Percentage of Real Property Tax Base by Tax Status

Tax Status	Percentage of Base by Value
Taxable	58%
U.S. Exempt	26%
D.C. Exempt	4%
Non U.S./D.C. Exempt	12%
Total	**100%**

There is evidence that the District's real property tax base continues to rebound after several years of decline. Real estate transactions remained relatively strong in FY 2000, as reflected by continued strong deed recordation and transfer tax collections. While collections for deed recordation and deed transfer taxes decreased from FY 1999 to FY 2000 by 14 percent and 5 percent respectively, they did not decrease as much as originally anticipated, following extremely strong growth in the four prior years. Demand for District property is still high, and the District is still perceived as a "City on the move".

Making the District a more attractive place to live is a federal tax credit for individuals purchasing their first home in the District. Effective through December 31, 2001, this incentive provides a $5,000 federal tax credit designed to offset expenses related to the purchase of a first home in the District of Columbia. The following examples provide a flavor of the recent growth in the Washington real estate market:

- *The new Washington Convention Center.* The new convention center will include 2.3 million square feet, and will have an estimated value of $500 million. Construction is expected to be complete by March 2003. A number of hotels and other development projects are planned for the immediate area of the new convention center.
- *Freedom Forum*'s recent purchase of the D.C. Department of Employment Services (DOES) site on Pennsylvania Avenue. Freedom Forum,

TABLE 6
Real Property Tax Rate Changes Under Tax Parity Act of 1999

		FY1999	FY2000	FY2001	FY2002
New Class One: Effective 10/1/02	Class 1	$0.96	$0.96	$0.96	$0.96
	Class 2	$1.54	$1.34	$1.15	$0.96
New Class Two: Effective 10/1/02	Class 3	$1.85	$1.85	$1.85	$1.85
	Class 4	$2.15	$2.05	$1.95	$1.85
	Class 5*	$5.00	-	-	-

*Eliminated in FY 2000 in accordance with provisions of the Tax Parity Act of 1999. Properties formerly in this class were merged into Class 4.

a not-for-profit entity, has agreed to pay the District a sum of $50 million for the site, a $25 million gift for relocating the DOES, and includes a $25 million grant for the development of affordable housing. Freedom Forum will relocate its headquarters and the Newseum – a museum dedicated to the media – from its current location in Arlington, Virginia.

- *Federal government relocations.* Other recent relocations within and migrations to the District include the Bureau of Alcohol, Tobacco and Firearms, the Department Transportation, the Federal Communications Commission, the Department of the Navy, and the Secret Service. While these relocations may not substantially increase property tax revenues, they feed the image of a city moving forward.
- *New construction.* The real property tax revenue forecast includes a small increase in revenues from commercial property, and an increase from multifamily properties, due to new construction. Construction projects include hotel construction to accommodate visitors to the new convention center and commercial office space, which increased by more than 2 million square feet in 2000.
- *Tax increment finance program.* The District is currently authorized to issue $300 million in tax increment finance (TIF) bonds. These bonds provide grants for private development that would not occur but for financial subsidy. TIF bonds are backed solely by incremental growth in real property and sales taxes (not already pledged for General Obligation or Washington Convention Center Authority bonds). Planned projects include about $75 million in FY 2001 for a multi-use retail-entertainment-housing development at Gallery Place. A Development Agreement is substantially complete for the construction of a Mandarin Hotel at the Portals in Southwest. A third project, the Spy Museum Project, is currently in the early stages of development.
- *Commercial office vacancy rates.* The forecast includes an increase in commercial property revenues as the market responds to the shortage of office space in the Central Business District (CBD). The commercial office vacancy rate in the CBD of the District of Columbia averaged around 4 percent in 2000, suggesting a tight market for office space. The average rental rate per square foot for Class A space in the CBD is approximately $38.50 with reported rates as high as $55. The tight market indicates that the District is becoming a more attractive office location. For example, there are currently two major projects underway in the Navy Yard section of Southeast DC: a 273,000 square foot office building located at 80 M Street SE and a 282,000 square foot office building located at 300 M Street SE. Both buildings are nearly 100 percent pre-leased.

Personal Property Tax
The personal property tax is imposed on the depreciated value of all tangible personal property used in a trade or business (computers, vehicles, etc.) except for inventories held for sale. Renewed strength in the District's economy has been accompanied by higher investment in personal property used for commercial purposes. Revenues from the personal property tax are expected to decrease from $70.1 million in FY

TABLE 7
Value Change by Triennial Group

	FY 1999 Tri-Group One (58,403 Accounts)	FY 2000 Tri-Group Two (56,149 Accounts)	FY 2001 Tri-Group Three (53,407 Accounts)
No Change	11.6%	21.9%	18.7%
Decrease	38.9%	27.0%	5.8%
Increase	49.5%	51.1%	75.5%
Total	100.0%	100.0%	100.0%

2000 to $54.1 million in FY 2001. This decrease is the result of the Tax Parity Act of 1999 which excludes the first $50,000 in taxable value and accelerates depreciation for computer equipment. Accelerating the depreciation of computer equipment is a move designed to make the District more competitive with surrounding jurisdictions, which allow more rapid depreciation of such equipment. Personal property tax revenues are estimated at $53.7 million in FY 2002.

Sales and Excise Taxes

General Sales and Use Tax

FY 2000 sales and use taxes revenue of $585.7 million net of the Convention Center transfer, represents the third largest source of D.C. revenue, making up 19.3 percent of total local-source revenue. General sales and use taxes are imposed on the sale or consumption of tangible personal property or services within a taxing jurisdiction. The sales and use tax applies to businesses on their purchases of supplies and equipment as well as to a wide range of ordinary consumer purchases.

TABLE 8
General Sales & Use Tax Rates

Item	Sales Tax Rate
General Retail Sales	5.75%
Alcohol (off-premise consumption)	8.00
Restaurant Meals, Auto Rentals & Prepaid Phone Cards	10.00*
Commercial Parking	12.00
Hotel Room (effective 10/1/98)	14.50**

* 1% earmarked for the convention center
** 4.45% earmarked for the convention center

Approximately 42 percent of the District's sales and use tax is levied on purchases by businesses for their own use.

Revenue from the District's sales and use tax is collected using a five-tier structure, as the following table details. The multiplicity of rates, with special exemptions provided at each rate, complicates the administration of the tax for businesses such as hotels and food stores, where transactions may involve several tax categories.

General retail sales comprise two-thirds of the tax base and account for about half of the revenue. The remaining half of the tax is paid by those categories, such as hotels and restaurants, where the tax rates are higher. In FY 2000, the base of the sales and use tax was $8.3 billion. Of total collections of $640.2 million, $585.7 million was deposited into the General Fund and $54.5 million into the Convention Center Fund.

Growth of sales at the general rate reflect the increased business activity in the District. As evident in FY 1997, 1998, 1999 and 2000 collections, a somewhat stronger District economy and improved tax administration are having a positive impact on revenue. During the period of the financial plan, general sales are expected to increase at a rate slightly above the increase in gross state product and the hospitality industry is forecast to grow more than the rate of inflation.

Excise Taxes

In addition to the multi-rate general sales and use tax, the District imposes excise taxes on alcoholic beverages, cigarettes, motor vehicles, and motor fuel. The motor fuel tax is routed directly to a special account to match federal highway funds. As a result, motor fuel tax revenue is not considered part of the General Fund for budgetary purposes. Each

TABLE 9
Estimated Sales Tax Base and Payments by Tax Type, FY 2000
($ Millions)

	General Retail	Liquor	Restaurant	Parking	Hotel	Total
Base	5,490.4	158.0	1,630.0	203.3	858.6	8,340.3
Rate	5.75%	8%	10%	12%	14.5%	N/A
Collections	315.7	12.6	163.0	24.4	124.5	640.2
Convention Center Transfer	0	0	16.3	0	38.2	54.5
General Fund	315.7	12.6	146.7	24.4	86.3	585.7

Note: Preliminary cash collections, includes use tax.
Source: Office of Research & Analysis

TABLE 10
Change in Reported Taxable Sales by Rate Category: FY 1996 and FY 2000
($ Millions)

	General Retail 5.75%	Liquor 8%	Restaurant 10%	Parking 12%	Hotel 14.5%
1996	$3,910.9	$146.6	$1,527.9	$196.4	$634.5
2000	$5,490.4	$158.0	$1,630.0	$203.3	$858.6
% change	40.4%	7.8%	6.7%	3.5%	35.3%

Note: Preliminary Cash Collections, includes use taxes.
Source: Office of Research & Analysis

TABLE 11
General Sales and Use Tax General Fund Revenues, Fiscal Years 2000-2005
($ Thousands, Net of Convention Center Fund Transfer)

	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005
General Sales and Use	585,688	642,752	685,697	730,258	774,348	813,066

TABLE 12
Selective Sales and Excise Tax General Fund Revenue, Fiscal Years 2000
($ Thousands)

	FY 2000	FY2001	FY 2002	FY 2003	FY 2004	FY 2005
Alcoholic Beverages	4,779	4,940	4,810	4,810	4,810	4,810
Cigarette	17,177	17,587	17,000	17,000	17,000	17,000
Motor Vehicle Excise	36,693	31,904	31,000	31,000	31,000	31,000
Total Selective Sales and Excise (1)	58,649	54,431	52,810	52,810	52,810	52,810

(1) Excludes Motor Vehicle Fuel tax because it is not a General Fund revenue source.

of the excise taxes is subject to separate forecasting.

The alcoholic beverage tax is forecast to remain relatively constant during the next several years. Decreased consumption due to increased health awareness is expected to offset most of the growth consumption related to expanding tourism. The alcoholic beverage tax is levied on wholesale sales of beer, wine, and liquor in the District. The tax rates vary by type of product.

Cigarette consumption has been declining for some time due to a variety of factors, including greater awareness of health issues. Also, there is evidence that a substantial amount of "gray market" cigarettes are being sold in the District. Gray market cigarettes are cigarettes intended for sale in another country, but are being illegally sold within the United States. In January 2001, the Office of Tax and Revenue in conjunction with Metropolitan Police Department began intensive compliance efforts to rid the District of illegal cigarettes by focusing on distributors providing merchandise to the vendors. The stepped up enforcement program comes in the wake of legislation passed recently by the DC Council making the sale of "gray market" cigarettes illegal in the District.

The District's tax rate of $0.65 per pack is one of the highest in the nation. The stepped up enforcement program is expected to counteract declining demand and maintain revenues at the $17 million level through FY 2005.

The motor vehicle excise tax is imposed on the issuance of every original and subsequent certificate of title on motor vehicles and trailers. The tax is 6 percent of fair market value for vehicles under 3,499 pounds and 7 percent of fair market value for vehicles 3,500 pounds and over. As of October 1, 1998, new residents titling their previously out of state vehicles are no longer required to pay the tax. Despite the legislative changes, motor vehicle excise tax revenue for FY 1999 exceeded FY 1998 levels by 6.6 percent followed by a 17.1 percent increase in FY 2000. The growth in revenue is most likely due to an increase in overall vehicle sales in general, and sport utility vehicles in particular. For the District, motor vehicle excise tax revenue is expected to decline by 13 percent in FY 2001 and then remain relatively constant through FY 2005 at $31.0 million per year.

Income Taxes

The individual income, the corporate franchise and the unincorporated business franchise taxes are significant sources of District tax revenue. Collectively, these taxes represent 40.1 percent of FY 2000 local source revenue. Revenue for these sources is summarized in table 13. The figure for FY 2000 is an actual figure, while the figures for FY 2001 and beyond are projections.

Individual Income Tax

The individual income tax, the District's largest single source of tax revenue, accounted for 32.3 percent of General Fund revenue in FY 2000. The tax is levied on all individuals who maintain a permanent residence in the District at any time during the tax year or on those who maintain a residence for a total of 183 or more days. The tax is currently applied progressively to net taxable income as shown in Table 14.

These rates reflect the continued reductions reflected in the Tax Parity Act of 1999. The Tax Parity Act will reduce individual income tax rates and change the threshold for the top bracket over a five-year period. Individual income tax rates are scheduled decrease from 6 percent to 4 percent for

TABLE 13

Income Tax Revenues, Fiscal Years 2000-2005

($ Thousands)

	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005
Individual Income	1,077,346	1,041,691	1,112,524	1,153,053	1,182,899	1,256,035
Corporation Franchise	190,594	267,500	181,100	174,000	174,900	182,240
Unincorp. Business Franchise	70,624	71,282	67,453	73,837	78,958	78,808
Total Income Taxes	**1,338,564**	**1,380,473**	**1,361,077**	**1,400,890**	**1,436,757**	**1,517,083**

TABLE 14
Individual Income Tax Rates, FY 2001-FY 2002

Net Taxable Income	Marginal Tax Rate, TY 2001	Marginal Tax Rate, TY 2002
$0 - $10,000	5.0%	5.0%
$10,001 - $30,000	7.5%	7.0%
$30,001 and above	9.3%	9.0%

Source: Office of Research & Analysis

the first $10,000 of net taxable income, to reduce from 8 percent to 6 percent for the next $10,000 or $20,000 (depending on the tax year), and to reduce from 9.5 percent to 8.5 percent for the top rate. The taxable income level at which the top rate applies will also increase from $20,000 to $40,000. All these changes are phased-in over a five-year period from FY 2000 through FY 2004. All rate reductions will be stopped if economic growth and the District's fund balance fall below critical levels as established in the Tax Parity Act.

In FY 2002, the District expects revenue of approximately $1.13 billion from the individual income tax, with steady growth in FY 2003 to $1.15 billion. This represents a moderate growth of 3.6 percent in spite of continuing rate reductions associated with the Tax Parity Act.

Individuals exempt from the District's personal income tax include: elected officers of the federal government; presidential appointees subject to confirmation by the U.S. Senate; justices of the United States Supreme Court not domiciled in the District; employees on legislative staffs who are bona fide residents of the state of their elected officer; and all persons working in the District but living outside the District.

If this restriction on the District's ability to tax non-resident income were lifted, the District would collect up to $1.6 billion in additional revenue. This assumes that the full set of tax rates currently in force for District residents would be applied to wage, salary and proprietor income earned by non-residents.

Corporate Franchise and Unincorporated Franchise Taxes

The District's franchise tax is imposed on all corporations and unincorporated businesses having nexus in the District of Columbia. The tax liability is determined by multiplying the rate of 9.975 percent by the net taxable business income that is apportioned to the District of Columbia. Business income is apportioned to the District of Columbia based on a three-factor formula – sales, payroll, and property – with each factor weighted equally. When this apportionment formula does not fairly represent the extent of the taxpayer's business activities in the District, that taxpayer may petition for consideration of (or the Office of Tax and Revenue may require) a different formula.

The minimum tax liability is $100. Income from unincorporated businesses with annual gross receipts of $12,000 or less is not included in the taxable base. Also excluded from the taxable base is income from nonresident-owned unincorporated businesses that provide professional services (e.g. law firms). For taxable unincorporated business, owners are allowed a 30 percent salary allowance along with a $5,000 exemption. When 80 percent or more of the entity's income is derived from personal services, the unincorporated business income is taxed under the individual income tax.

The Tax Parity Act reduces franchise tax rates from the current 9.975 percent to 9.0 percent in FY 2003 and to 8.5 percent in FY 2004 and thereafter. The provision will reduce franchise tax revenue by an estimated $18.5 million in FY 2003 and $17.4 million in FY 2004. Other provisions of the Tax Parity Act eliminate carry-back of net operating losses and change the net operating loss provisions so that they are District-specific, with no expected revenue impact in the planning period. These two provisions became effective January 1, 2000.

Corporate franchise. The District expects to collect approximately $181.1 million in FY 2002 and $174.0 million in FY 2003 from the corporate franchise tax. The decline is due to the initial phase-in of the Tax Parity Act rate reductions. Tax collections in the District closely mirror collections for the same tax at the federal level. The Congressional Budget Office is projecting that corporate collections will hold steady through FY 2001 and 2002 before starting to increase by over 4 percent per year in FY 2003. District collections are expected to follow suit, although there is a degree of variability in our collections. For instance, there was an $18 million refund payment from the corporate franchise tax to one taxpayer in FY 1999 due to a court settlement, lowering the collections that year. The following year, there was a $10 million settlement in the District's favor, again distorting the baseline collections in the corporate tax.

Unincorporated business franchise. The District expects to collect approximately $67.5 million in FY 2002 and $73.8 million in FY 2003 from the unincorporated business franchise tax. As with the corporate franchise tax above, the drop is largely due to the initial phase-in of the reductions called for by the Tax Parity Act. Research indicates that collections from this revenue source are affected factors as diverse as corporate profits, resident employment, personal income growth, and collections in the transfer and recordation taxes (lagged two years).

Gross Receipts and Other Taxes

The District of Columbia imposes a 10 percent gross receipts tax on public utilities operating in the District of Columbia. Similar taxes are imposed on heating oil companies; natural and artificial gas marketers; long distance telephone companies; subscription television, video and radio service providers; and local telephone companies and wireless telecommunications providers. The traditional regulated utilities pay approximately 90 percent of the revenue associated with these taxes.

Nationally and locally, natural gas prices are up because of growing consumer demand, a colder winter than in the past few years, relatively flat production of gas for the past several years, and below normal gas storage levels. Since the fall of 2000, Washington Gas has been warning its customers that they will see an increase in their gas bills of approximately 50 percent or more over last winter. However, deregulation of the city's regulated energy industries is allowing greater competition in the marketplace. This is likely to place downward pressure on prices; whether this translates into lower gross receipts tax collections depends to a large extent on how much growth there is in the demand for energy.

The District replaced the gross receipts tax imposed on electric utilities with a "distribution" tax as a part of deregulation of the electricity market and Pepco's transformation from an electric power producer to an electric power distribution company. The tax is imposed on electricity distributors who operate in the District. The tax rate is $0.007 per kilowatt-hour and collections should be about the same as would have been collected under the gross receipts tax. The major difference between the gross receipts tax and the distribution tax is that a gross receipts tax collections fluctuate with both prices and quantity of sales while the distribution tax collections will rise and fall with consumption alone. This "distribution" tax revenue is included along with the city's gross receipts tax collections. This legislative change is revenue neutral.

Please see Table 15 for information on other taxes and fees, such as toll telecommunications, insurance premiums, and Deed Recordation and Deed Transfer Taxes.

Non-Tax Revenues and Lottery

Local non-tax revenue includes licenses and permits, parking and traffic fines, charges for services, interest income, and other revenue sources. Collectively, this revenue accounts for approximately 7.1 percent of the District's local-source General Fund revenue in FY 2000. Further detail is shown in Table 28 at the end of this chapter.

FY 2000 non-tax revenue was somewhat above FY 1999 levels. Factors that contributed to the difference (increases and decreases) between FY 1999 and FY 2000 non-tax revenue included the following:

- Funds appropriated from the Tobacco Settlement increased revenues by $16 million.
- There was a 20 percent increase in revenues from parking meters resulting in an increase of $1.9 million.
- There was a 19 percent increase in ambulance fees resulting in an increase of $844,000.
- A $6 million increase (11.5 percent) in fines

TABLE 15
Gross Receipts and Other Taxes, Fiscal Years 2000-2005
($ Thousands)

	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005
Public Utilities, Local Telephone Service, Cable Television, Heating Oil, and Natural Gas	132,849	144,850	152,480	156,445	160,512	164,685
Toll Telecommunications and Commercial Mobile Service	48,280	53,225	59,000	59,000	59,000	59,000
Insurance Premiums	30,882	32,000	33,000	34,000	35,000	36,000
Estate Tax	35,992	45,670	29,887	28,000	28,000	28,000
Deed Recordation	60,418	69,481	69,481	66,007	62,707	59,571
Deed Transfer	44,660	53,592	53,592	50,912	48,367	45,948
Economic Interests Transfer	540	500	500	500	500	500
Total Gross Receipts and Other Taxes	**353,621**	**399,318**	**397,940**	**394,864**	**394,085**	**393,705**

TABLE 16
Non-Tax and Lottery Revenues, Fiscal Years 2000-2005
($ Thousands)

	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005
Licenses & Permits	43,754	41,165	43,336	44,463	45,619	46,805
Fines & Forfeitures	53,216	52,990	60,040	61,601	63,203	64,846
Miscellaneous	104,847	53,883	72,030	73,903	75,825	77,796
Charges for Services	37,257	63,111	49,928	39,940	40,478	42,044
Tobacco Settlement (30%)	16,049	0	0	0	0	0
Legalized Gambling	69,450	69,000	70,000	70,000	70,000	70,000
Total Non-Tax Revenues	**324,573**	**280,149**	**295,334**	**289,907**	**295,625**	**301,490**

and forfeitures was due to red light camera fines, booting fees and insurance fines.
- Licenses and permits decreased by $2.7 million, due largely to the phase-out of professional licenses fees.
- General fund interest income was $15 million lower in FY 2000 than in FY 1999.
- Effective for FY 2000 cable television also moved to unallocated "private and other" revenue and no longer contributing to the general fund. This reduces charges for services by $2.0 million annually.

Factors that will increase non-tax revenue in FY 2001 and FY 2002 include:
- Interest income allocated to the general fund will increase after the control period expires. During the control period, some District funds were held by the financial Authority and interest on these funds was granted by the

Authority to various expenditures. This "granted" interest was reported as "private and other" revenue and not in the general fund.
- The right-of-way fees will be increased from current levels in FY 2001, generating an additional $23.3 million for a total revenue of $30 million in FY 2001.
- An increase of 15 taxicab inspectors is expected to generate $1.4 million in additional FY 2001 revenue.
- The speeding camera program to identify and fine speeding drivers is expected to increase revenue by $8 million in FY 2002.

Factors that will offset the increase in FY 2001 and FY 2002 collections from non-tax revenue include:
- A continued and increased effort to return unclaimed property to the rightful owners is expected to decrease miscellaneous revenue.
- An anticipated slowdown in construction activity is expected to result in a decrease in revenue associated with construction-related business licenses and permits.

Tax Revenues Foregone Due to Federal Presence

The District of Columbia foregoes some tax revenue due to its unique role as the nation's capital. Restraints on taxation include tax exempt property, the nonresident individual income tax prohibition imposed by Congress, and the large number of tax exempt and military personnel in the District of Columbia. The inability of the District to include certain income and property within the tax base results in the need to impose higher tax rates on taxable income and property than would otherwise be the case. In other words, the District could lower tax rates and maintain current revenue if the city could expand the tax base. These factors are:

1. Federally-owned real estate in the District of Columbia is exempt from real and personal property taxes. Certain other entities are specifically exempted by federal law, which would not otherwise be exempt. Real and personal property tax exemptions are estimated to cost the District roughly $540 million annually at FY 2001 tax rates.
2. The prohibition against taxing nonresident individual income shifts hundreds of millions of dollars in revenue annually from D.C. to other taxing jurisdictions. If the District imposed a three percent tax on nonresident wages and salaries, revenues over and above current individual income tax receipts would be in excess of $600 million (which would be deductible from income taxes paid in other states). A nonresident individual income tax at full District of Columbia rates would yield an estimated $1.6 billion annually, assuming no change in the location of employment or wage rates.
3. Sales and excise tax exemptions for diplomatic and military personnel reduce District of Columbia revenue by roughly $70 million at current tax rates. Alternatively, if these entities were subject to sales taxes, then rates could be reduced by about 12 percent and still generate the same amount of revenue.

These three specific exemptions amount to $1.2 billion or more annually. In addition to these mandated exemptions, the Congressionally imposed restriction on the height of District buildings limits taxable office and residential space. These restrictions dampen property tax revenues (and could have spillover effects into income, sales and other taxes) by artificially restricting the property tax base. Tax base limitations are also partly responsible for the high tax rates in the District as compared to surrounding jurisdictions. Table 17 compares the District's tax base to that of surrounding jurisdictions on several measures.

Special Funds and Earmarked Revenues

District of Columbia revenues include both special funds and earmarking of General Fund revenues.

Special Funds. The District operates several special funds financed by tax revenues, including the Convention Center Fund, the Highway Trust Fund, and the Arena Fund. These revenues are not available to the General Fund and the Appropriated Budget, but they are included here for the sake of completeness and to provide estimated revenues for these funds. Furthermore, in the case of the Convention Center, the special funds represent a deduction or earmarking of revenues from what otherwise are general fund tax sources.

Convention Center fund. Beginning in FY

TABLE 17
Elements Of the District's Tax Base Compared To Maryland, Virginia, and the United States, 1999

	D.C.	MD	VA	US total
Employment income of residents as percentage of employment income earned in jurisdiction	33%	118%	106%	100%
Employment in sectors not subject to full taxation in the District* as percentage of total employment (for wage & salary workers)	60%	30%	28%	27%

***Employment in hospitals, nursing & personal care facilities, education and social services, non-profit organizations, federal, state and local government**

TABLE 18
Sales Tax Forecast for the Convention Center Fund, Fiscal Years 2001-2005
($ Thousands)

	FY2001	FY2002	FY2003	FY2004	FY2005
Restaurant Sales Tax	18,374	19,602	20,876	21,410	22,473
Hotel Sales Tax	42,874	45,783	47,127	49,958	52,437
Total	**61,248**	**65,340**	**69,586**	**73,788**	**77,477**

TABLE 19
Highway Trust Fund, Fiscal Years 2000-2005
($ Thousands)

	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005
Motor Fuel Tax	31,829	31,000	31,000	31,000	31,000	31,000

1999, the formula financing the Convention Center Fund was changed to include only sales tax revenue from hotels, restaurants, rental vehicles and certain other sales.

Motor fuel tax. In 1995, the District was required to establish a highway trust fund dedicated to repayment of the local share of the Federal-Aid Highway Program (FAH). The District's share had been waived by the Federal Highway Administration in FY 1995 and 1996 but had to be repaid beginning in FY 1997. This fund also serves as the source from which the District matches all future FAH grants. These monies, both local-source and Federal matching funds, are used to construct and repair sec-

TABLE 20
Arena Fee Schedule

D.C. Gross Receipts	Fee
$2,000,000 - $3,000,000	$1,300
$3,000,001 - $10,000,000	$4,325
$10,000,001 - $15,000,000	$8,500
Over $15,000,000	$14,250

TABLE 21
District of Columbia Earmarked Revenues, FY 1999 (prelim.)

Purpose	Source(s)	Percent of Local-Source Revenue
General Obligation Bonds	Real property tax (variable percentage)	13.44%
WMATA	All of the motor vehicle excise tax, all parking meters fees, all traffic fines, the motor vehicle registration fee, and parts of the restaurant, hotel and parking sales taxes	11.34%
Highway Trust Fund	All of the motor vehicle fuel tax	1.01%
New Convention Center	Parts of the restaurant and hotel sales tax.	1.61%
New Arena Construction	Arena fee (all)	0.38%
Total:		**27.78%**

Note: Total consists of all local-source general fund revenues plus the arena fee, convention center transfers, and the motor vehicle fuel tax.

tions of the District's roads and other transportation infrastructure. Motor vehicle fuel tax revenue is deposited directly into the trust fund and is not General Fund revenue. This tax is levied on fuel wholesalers and is primarily a function of fuel consumption.

Arena fee. The Arena Fee is assessed against D.C. gross receipts of businesses on a sliding scale in order to finance debt service on general obligation construction bonds issued by the District for site preparation related to the MCI Arena. The Council has passed legislation to increase the level of the fee for one year in order to pay the bonds off early, thus eliminating the need to administer the fee for an additional year.

The Tax Parity Act provides a $2 million threshold for the Arena Fee. That is, no taxpayer with District gross receipts below $2 million is required to pay the Arena Fee. To satisfy bond requirements Arena Fee rates for taxpayers with District gross receipts of $2 million or more have been adjusted to ensure that Arena Fee revenues do not fall below minimum levels. The revised fee schedule is set out in table 20.

Earmarking of Revenues for Special Purposes

The District earmarks, or sets aside, revenues from several sources to provide funding for certain specific purposes. In general, the tax that is earmarked relates to the purpose being funded; for example, the motor vehicle fuel tax is used to match Federal dollars for the highway trust fund. The percentage of total revenue earmarked in FY 1999 is shown in Table 21.

This total of 27.8 percent of total local-source revenue earmarked is slightly above the level of other states; nationwide, states earmark on average 24 percent of their revenue for various purposes.

Growth Potential of the District's Revenue System

The outlook for sustained, long-term growth in the real value of the District's tax revenue is not good. This gloomy prospect stands in contrast to the possible growth of the District's economy. Economic rebound would bring more residents and higher wage earnings, adding to individual income tax revenue. Success in building the retail base of the District can lead to substantial growth in sales and use tax revenue. Yet, even if the District makes these gains, changes in eight other taxes are likely to dampen the purchasing power of total collections over the long-term. This conclusion is based on consideration of three tax bases at risk, five tax bases that cannot be counted on for sustained growth, and the two tax bases that may produce long-term strength. This section examines this dichotomy and identifies problems facing the long-term revenue base of the District of Columbia.

Tax Bases at Risk

Toll Telecommunications gross receipts tax and the Public Utilities gross receipts tax: Competition and technology changes are creating alternatives to the local industries that provided these services in the last century. Increasingly, it will be impractical to tie provision of utility services to a location – a linkage necessary to impose the current gross receipts tax. For example, wireless phone service substitutes for wired local and long-distance service—the wireless provider can be located virtually anywhere. These tax bases are at risk of dissipating over time.

Estate Tax: If the federal estate tax is limited or eliminated, the District's tax collections also will be limited or eliminated. Like many states, the District collects that part of the federal estate tax that is federally identified as apportionable to the local jurisdiction. When the federal tax changes, the District's will change correspondingly.

Tax Bases That Are Unreliable For Long-Term Growth

Corporate Franchise Tax: The state-level corporate franchise tax can be managed by interstate corporations to decrease total tax burden. For example, corporations can use tax planning to shift corporate costs into the District and corporate profits to states with a lower rate or no tax at all. For this reason, this revenue source is not likely to grow as fast as the national economy or as fast in the District as national business profits over the long-term.

Unincorporated Business Franchise Tax: Construction and Property Management are the two primary industries that pay the unincorporated business profits tax. (A Supreme Court decision found that professional service partnerships generally are exempt from this tax in the District, due to the home rule prohibition against taxing non-resident income.) Profits of these two industries are cyclical and will be constrained in the District because of limitations on space—both horizontally in land area and vertically in building height limitations. The District's land boundaries are very clearly drawn and there is very little vacant space. The limitation on building height means that, unlike other core cities, the District cannot "create" additional space by building higher structures. Because the competing suburbs have neither limitation, our neighbors will always have a competitive edge in this regard. Profits in both construction and property leasing are likely to have more dramatic swings in the District than in the suburbs and to have a lower long-term growth trend.

Real Property Tax: The assessed value of the real property tax base changes rapidly in the District In the boom of the late 1980s, property values and tax collections rose rapidly. This is happening again for FY 2002. In the late 1990s, property values also grew rapidly, although assessed values for tax purposes were suppressed by the triennial assessment cycle.

In the aftermath of the rapid growth of the late 1980s, assessed values and revenue fell very quickly in the early 1990s – faster than the general decline of the economy. Comparable declines in the future can easily be triggered for two basic reasons. First, an economic down cycle will affect rents and profits of property owners; assessments and revenue fall even more rapidly in the downturn than they increase in the up cycle. Second, even with a good general economy, property values can stagnate in the District due to greater competition from other metropolitan area locations. When the suburbs gain an advantage, property value quickly migrates out of the District into neighboring areas. And the suburbs will often have a competitive edge because of the District's limited land area and building height limitations.

Deed Recordation and Deed Transfer Taxes: The same limitations facing real property and unincorporated business franchise taxes also affect the deed taxes. The District cannot add parcels by extending real property activity into new spaces. The potential volume of transactions subject to deed taxes is limited.

Individual Income Tax (Capital Gains Revenue): The recent boom in income tax revenue is substantially driven by capital gains (profits) that have been growing at rates unprecedented in history. The current slump in value of many previously fast-growing stocks illustrates that this cannot be sustained. Taxpayers will continue to have capital gains over the long-term, but these cannot be counted on as a source of accelerated long-term growth in inflation-adjusted revenue. Rapid, long-term growth in wage incomes, however, might be the source of long-term growth in real revenue from the income tax.

Taxes with Long-Term Growth Potential

Sales and Use Tax: The Hotel and Restaurant components of the District's sales and use tax have the potential for continued real growth as the regional and national economies advance. Because a great deal of this revenue is generated from visitors, we can expect activity at least in keeping with external economic growth rates. The addition of the new convention center and related activities also may accelerate growth. The General Retail Sales component of the sales and use tax also has potential for growth, but only if efforts to stimulate development of the retail sector are successful. Because of the light density of retail currently in the District, much of the purchasing power of residents is used in other jurisdictions. If the District can attract successful retail activity over time, revenue will follow. Attracting this activity is made difficult by the abundance and variety of easily accessible shopping in the suburbs.

Individual Income Tax (Resident-earned Income): Incomes of residents are the basis of the District's individual income tax. Incomes generally consist of wages, profits (capital gains), rental income, and income supports such as social security, pensions, and "welfare" incomes. The District's potential for accelerated growth in income tax revenue requires accelerated growth in wages of residents. To achieve long-term growth in wages, at least one of two things must happen. One is consistent growth in new population with increasingly valuable and marketable skills—this way, the District can import more and more income tax revenue over time. The second is for current District residents to achieve continuous improvement in the level and marketability of their skills. Successful and sustained policy efforts to improve the human capital of those who live in the District would be needed to secure this outcome.

The District cannot expect real growth in tax revenue from income supports unless some highly successful programs are implemented to attract a growing number of retired residents. Some jurisdictions have adopted policy programs to build a population of retirees, in part to gain the revenues linked to those drawing pensions and other retirement incomes. The District has not included this as one of its higher policy priorities, preferring instead to focus most policies on activities of greater benefit to current residents.

Because of the open nature of the District's economy, the impact of new business on the economy is small relative to that of other jurisdictions. Much of the new sales of both intermediate inputs and consumption commodities generated by the new business will go to those outside the District, which are often only a few subway stations away. Moreover, the impact on tax revenue is even smaller because only a third of jobs in the District are filled by District residents, and nonresident income is not subject to taxation in the District. Signs of improving demographic trends, evidenced by the strong housing market and booming housing construction, are encouraging. However, as the population ages and the economy shifts more toward services, many of which are not subject to sales tax, securing more tax revenue will not be easy.

Notes on the data and the revenue estimates

In the tables and estimates contained in this chapter, actual revenues are reported for FY 2000, estimated revenue for FY 2001-2002, and projected revenues for FY 2003 – FY 2005. Actual revenues correspond to amounts that are reported in the Comprehensive Annual Financial Report (CAFR) for FY 2000. The Office of Research and Analysis (ORA) prepares the estimates and projections based on current law, policy, and administrative quality. No changes in tax structure, tax rates, or addition or elimination of revenue sources are included as part of the estimate unless already legislated and able to be implemented.

Legislative Initiatives

The following section presents some of the major legislative and other initiatives impacting the estimates as of the time that this document was prepared:

Tax Parity Act of 1999

The revenue estimates take into account the implementation of the cuts specified in the Tax Parity Act of 1999. This legislation provides District of Columbia tax reductions ranging in cost from $59.9 million in FY 2000 to $323.4 million in FY 2004. The Tax Parity Act includes rate reductions in the individual income tax, in commercial and rental real property taxes, and in the franchise taxes. Personal

TABLE 22

Anticipated Future Performance by Revenue Source

	Tax year 1999	
	Dollars (000)	Percent
Tax Bases At Risk:		
Toll Telecommunications	51,874	1.9
Public Utility	128,472	4.6
Estate	26,247	0.9
Subtotal	**206,593**	**7.4**
Tax Bases Unreliable For Long-Term Growth:		
Individual Income Remainder (includes capital gains)	253,503	9.1
Corporate Franchise	163,699	5.8
Unincorporated Business	53,896	1.9
Real Property	597,566	21.4
Deed Recordation	70,398	2.5
Deed Transfer	47,001	1.7
Subtotal	**1,186,063**	**42.4**
Tax Bases With Potential For Long-Term Growth:		
Sales and Use	594,804	21.3
Individual Income (withholding on earned income)	698,653	25.0
Subtotal	**1,293,457**	**46.3**
Other Taxes:		
Personal Property	73,928	2.6
Public Space	8,056	0.3
Insurance Premium	26,944	1.0
Economic Interests	3,687	0.1
Subtotal	**112,615**	**4.0**
Total, all taxes	**2,798,728**	**100.0**

Note: figures may not sum to totals due to rounding.

In TY 1999, collections from withholding represented 73 percent of individual income tax collections.

Withholding in TY 1999 was 8.1 percent greater than in TY 1998.

property depreciation rates are accelerated and a threshold is introduced for payment of the personal property tax. Other provisions include elimination of the Arena Fee for those businesses with less than $2 million in District gross receipts, elimination of net operating loss carry-back and provision of a District-specific net operating loss provision and elimination of the sales tax on Internet access.

The provisions of the Tax Parity Act are phased-in and will not be fully effective until FY 2004. The provisions to be phased-in each year of the plan can be halted if the Chief Financial Officer (CFO) of the District of Columbia determines that a) the accumulated fund balance for the prior year is below five percent of the general fund operating budget of that year; b) gross domestic product (GDP) growth as estimated by the Congressional Budget Office (CBO) is below 3.5 percent for the current year; or c) inflation-adjusted growth in GDP as estimated by CBO is below 1.7 percent for the current year. The Council and the Mayor may also consider reducing the top rate to 8 percent or less if economic conditions warrant such a change.

Automated Traffic Enforcement System

D.C. Code § 40-751 authorizes the use of an automated traffic enforcement system to detect moving vehicle infractions. Violations detected by the automated traffic enforcement system constitute moving violations. Recorded images taken by the automated traffic enforcement system are prima facie evidence of an infraction.

In FY 2000, the District began a red light camera traffic program. This initiative has 39 cameras located around the city and has been successful in reducing red light running and accidents. Fines are associated with the issuance of tickets for this violation and are estimated to produce $6.0 million each year beginning in FY 2001. The speeding camera program, due to be fully operational in FY 2002, is estimated to produce $8 million per year in net revenues for the General Fund beginning in FY 2002. This program will have one fixed camera unit and 6 vehicle-based units throughout the city. This new source of revenue will affect the General Fund via fines under the nontax revenues.

The Captive Insurance Company Act of 2000

The Captive Insurance Company Act of 2000 permits the chartering and operation of captive insurance companies in the District of Columbia; providing for the regulation of captive insurers; establishing minimum amounts of capital and surplus that must be maintained by a captive insurer; providing for a premium tax, exempting licensed captive insurers from certain taxes; and authorizing the Insurance Commissioner to adopt regulation. The legislation will result in net revenue to the District approximating $11,004 in FY 2001; $100,152 in FY 2002; $179,231 in FY 2003; and $258,241 in FY 2004. The net revenue will positively affect the general fund via the premium tax, application fees, license fees and renewal fees.

The District of Columbia Securities Act of 2000

The District of Columbia Securities Act of 2000 repeals the existing District of Columbia Securities Act and Investment Advisors Act of 1992 and substitutes a new act to require the licensing of securities, broker-dealers, investment advisers and investment adviser representatives, and to regulate broker-dealers and others who participate in the sale and purchase of securities. The legislation will result in net revenue to the District approximating $132,895 in FY 2001; $1,807,443 in FY 2002; $3,480,803 in FY 2003; and $5,002,864 in FY 2004. The net revenue will positively affect the general fund via application fees, license fees and renewal fees.

Revenue Impact of Incremental Changes in Tax Rates

Table 23 looks at the revenue impact of incremental changes in the tax rates effective 2001 – for instance, lowering a tax rate by one cent or by one percentage point. These numbers are not presented as definitive fiscal impact statements, but instead represent rules of thumb to evaluate general legislative proposals.

Tables 24 through 28 provide additional detail on what the District taxes, at what rates, and how much revenue these taxes yield.

TABLE 23

Annual Impact of Changes in Tax Rates

Real Property Tax:		
One cent change in tax rate by class	Class 1 ($0.96)	$1.28 M
	Class 2 ($1.34)	$0.57 M
	Class 3 ($1.85)	$0.15 M
	Class 4 ($1.85)	$1.49 M
	TOTAL	$3.49 M

Eliminate homestead exemption		$26.1 M
Eliminate senior credit		$15.0 M

Personal Property Tax:		
One cent change in tax rate (now $3.40 per $100 value)		$0.20 M

Note: Assumes no change in stock of personal property.

Sales and Use Tax:		
One percent change in each tax rate	General rate (5.75%)	$50.20 M
	Liquor rate (8.0%)	$ 1.64 M
	Restaurant rate (10%)	$15.63 M
	Parking rate (12%)	$ 1.91 M
	Hotel, motel rate (14.5%)	$ 7.52 M
	TOTAL	$77.29 M

Note: Does not include estimates of elasticity of various tax rates.
Figures shown are before Convention Center distribution.
Figures include use tax.

Eliminate sales tax on business purchases		$100 M

Alcoholic Beverage Tax:		
One cent change in tax rate	Beer ($0.09 rate per gallon)*	$133 K
	Spirits ($1.50 per gallon)	$ 17 K
	Light Wine ($.30 per gallon)	$ 25 K
	Heavy Wine ($.40 per gallon)	$ 2 K
	Champagne, Sparkling ($.45)	$ 31 K
	TOTAL	$208 K

* Equivalent to tax rate of $2.79 per 31-gallon barrel.

Cigarette Tax:		
One cent change in tax rate	Cigarette tax rate now $.65	$0.18 M

Note: Assumes elasticity of 0.5, figure shown assumes rate increase.

Motor Vehicle Excise Tax:		
One percent change in each tax rate (current rates now 6%, 7%)		$2.80 M
Motor Vehicle Fuel Tax:		
One cent change in tax rate (current rate 20 cents per gallon)		$1.60 M
Individual Income Tax:		
One percent change in each rate (FY 2001 rates 5%, 7.5% and 9.3%)		
	Taxable Income of 0-$10,000 at 5%	$21.1 M
	Taxable Income 10-$30,000 at 7%	$14.4 M
	Taxable Income over $30,000 at 9.3%	$50.2 M
	TOTAL ALL THREE RATES	$85.7 M
Increase personal exemption from $1,370 to $1,500		$5.3 M
Increase standard deduction from $1,000/$2,000 to $2,000/$4,000		$12.0 M
Reduce top rate to 9.0% (now 9.5%)		$25.6 M
Corporate Franchise Tax:		
One percent change in tax rate (current rate 9.975%)		$16.5 M
Unincorporated Business Franchise Tax:		
One percent change in tax rate (current rate 9.975%)		$5.4M
Public Utility Tax:		
One percent change in tax rate (current rate 10.0%)$12.8 M		
Toll Telecommunications Tax:		
One percent change in tax rate (current rate 10.0%)$5.19 M		
Deed Recordation Tax:		
One-tenth percent change in tax rate (current rate 1.1%)		$6.4M
Deed Transfer Tax:		
One-tenth percent change in tax rate (current rate 1.1%)		$4.3M
Economic Interests Tax:		
One-tenth percent change in tax rate (current rate 1.1%)		$0.18M

TABLE 24

Summary of District of Columbia Tax Rates as of:

	10/1/00	10/1/01
Real Property (per $100 of Assessed Value)		
Class I – Owner-Occupied Residential*	$0.96	$0.96
Class II – Residential Rental	1.15	0.96
Class III – Hotels, Motels, Inns	1.85	1.85
Class IV – Commercial	1.95	1.85
* Subject to homestead exemption of $30,000 and senior citizen exemption		
Personal Property (per $100 of Assessed Value)	$3.40	$3.40
General Sales Tax (per $1.00 of sales)		
General Rate	5.75%	5.75%
Off-Sale Alcohol	8.0%	8.0%
Restaurant Meals	10.0%	10.0%
Parking	12.0%	12.0%
Hotels/Motels (rate effective 10/1/98)	14.5%	14.5%
Alcoholic Beverage Tax		
Beer	$2.79 per barrel	$2.79
Distilled Spirits	1.50 per gallon	1.50 per gallon
Wine < 14%	0.30 per gallon	0.30 per gallon
Wine > 14%	0.40 per gallon	0.40 per gallon
Sparkling Wines	0.45 per gallon	0.45 per gallon
Cigarette Tax (per pack)	$0.65	$0.65
Motor Fuel Tax (per gallon)	$0.20	$0.20
Motor Vehicle Excise Tax		
Up to 3,499 lbs.	6% of value	6% of value
3,500 lbs. or more	7% of value	7% of value
Hotel Occupancy Tax (effective 10/1/98)	Eliminated	Eliminated
Individual Income Tax (marginal rate, calendar 2001)		
$ 0 - $ 9,999	5%	5%
$ 10,000 - $ 29,999	7.5%	7.0%
$ 30,000 and over	9.3%	9.0%
Corporation and Unincorporated Business Franchise	9.975%	9.975%
Public Utility Gross Receipts	10.0%	10.0%
Toll Telecommunication Gross Receipts	10.0%	10.0%
Insurance Gross Premiums (effective 1/1/99)	1.7%	1.7%
Estate Tax	Federal Credit	Federal Credit
Deed Recordation and Transfer Taxes	1.1%	1.1%
Economic Interests Tax	2.2%	2.2%

Source: District of Columbia Tax Facts and Office of Tax and Revenue

TABLE 25
Summary of Major Taxes in the District of Columbia

PART A – GENERAL FUND TAXES

TAX	DESCRIPTION OF WHAT IS TAXED	RATE	FY 2000 REVENUE
REAL PROPERTY TAX	All real property, unless expressly exempted, is subject to the real property tax and, beginning in TY 98, is assessed triannually at 100% of market value. The District of Columbia uses five classifications of property: Class 1--improved residential real property that is owner-occupied; Class II--improved residential real property that is rental; Class III--hotels and motels; Class IV--real property which is not Class I, II, or III property; and Class V—unimproved property (vacant land). Vacant property which abuts and has common ownership with a classified property is classified the same as that property which it abuts. *D.C. Code Citation: Title 47, Chapter 7 - 14.*	The District's Real Property Tax Year is October 1 through September 30. **Property Class** / **Tax Per $100 of Value** Class I $0.96/1 Class II $1.15 Class III $1.85 Class IV $1.95 /1 The first $30,000 of Assessed Value is exempt from the tax. Note: Class V was combined with Class IV, effective October 1, 1999.	$610,896,000
PERSONAL PROPERTY TAX	All tangible property, except inventories, used or available for use in a trade or business. *D.C. Code Citation: Title 47, Chapter 15 - 17.*	$3.40 per $100 of assessed value Note: As of July 31, 2000, both an accele-rated depreciation schedule for computer equipment; and a $50,000 taxable value threshold on personal property are adopted.	$ 70,133,000
PUBLIC SPACE RENTAL	Commercial use of publicly owned property between the property line and the street. *D.C. Code Citation: Title 7, Chapter 10.*	Various rates for the following: Vault, Sidewalk (Enclosed and Unenclosed). Sidewalk Surface, and Fuel Oil Tank	$ 11,752,000
SALES AND USE TAX	All tangible personal property and certain selected services, sold or rented to businesses or individuals at retail in the District. Groceries, prescription and non-prescription drugs, and residential utility services are among those items exempt from the sales tax. The use tax is imposed at the same rates sales tax rate on purchases made outside the District and then brought into the District to be used, stored or consumed, providing that the purchaser has not paid the sales tax on the purchases to another jurisdiction. D.C. Code Citation: Title 47, Chapters 20 and 22.	A five-tier rate structure is presently in effect: 5.75% General rate for tangible personal property and selected services, 8% Liquor sold for off the premises consumption 10% Restaurant meals, liquor for consumption on the premises, rental vehicles 12% Parking motor vehicles in commercial lots 14.5% Transient accommodations Note: The following portions of the sales tax go to the Convention Center Fund: 1% of sales tax from restaurant meal etc., and 4.45% of transient accommodations. Sales tax on internet access is eliminated.	$585,688,000 a

<table>
<tr><td>ALCOHOLIC BEVERAGE
TAX</td><td>Alcoholic beverages manufactured by a holder of a manufacturer's license and beverages brought into D.C. by the holder of a wholesaler's license.
D.C. Code Citation: Title 25, Chapter 1.</td><td>Beer --$2.79 per 31 gallon barrel
Light wine <15% alcohol – 30¢ per gal
Heavy wine >14% alcohol – 40¢ per gal
Champagne/sparkling wine- 45¢ per gal
Spirits -- $1.50 per gallon</td><td>$ 4,779,000</td></tr>
<tr><td>CIGARETTE
TAX</td><td>The sale or possession of cigarettes in the District. Cigarettes sold to the military and to Federal Government are exempt.
D.C. Code Citation: Title 47, Chapter 24.</td><td>65¢ per package of twenty cigarettes</td><td>$ 17,177,000</td></tr>
<tr><td>MOTOR VEHICLE EXCISE
TAX</td><td>Issuance of every original and subsequent certificate of title on motor vehicles and trailers.
D.C. Code Citation: Title 40, Chapter 7.</td><td>Based on manufacturer's shipping weight
6% of fair market value- 3,499 lbs or less
7% of fair market value- 3,500 lbs or more</td><td>$ 36,693,000</td></tr>
<tr><td>INDIVIDUAL INCOME
TAX</td><td>The taxable income of an individual who is domiciled in the District at any time during the tax year, or who maintains an abode in the District for 183 or more days during the year.
D.C. Code Citation: Title 47, Chapter 18.</td><td><table><tr><td>Taxable Income</td><td>Tax Rate</td></tr><tr><td>First $10,000</td><td>5.0%</td></tr><tr><td>Over $10,000, but not over $30,000 $10,000</td><td>$500 + 7.5% of excess over $10,000</td></tr><tr><td>Over $30,000</td><td>$2,000 + 9.3% of Excess over $30,000</td></tr></table></td><td>$1,077,346,000</td></tr>
<tr><td>CORPORATE FRANCHISE
TAX</td><td>Net income of corporations having nexus in the District. All corporations engaging in a trade, business or profession in the District of Columbia must register.
D.C. Code Citation: Title 47, chapter 18.</td><td>The franchise tax rate is 9.975 percent of taxable income, a 9.5 percent rate plus a surtax equal to 5 percent of the base rate.</td><td>$190,594,000</td></tr>
</table>

U. B. FRANCHISE TAX	Net income of unincorporated businesses with gross receipts over $12,000. A 30% salary allowance for owners and a $5,000 exemption are deductible from net income to arrive at taxable income. A business is exempt if more than 80% of gross income is derived from personal services rendered by the members of the entity and capital is not a material income-producing factor. A trade, business or professional organization which by law, customs or ethics cannot be incorporated is exempt. *D.C. Code Citation: Title 47, chapter 18.*	The franchise tax rate is 9.975 percent of taxable income, a 9.5 percent rate plus a surtax equal to 5 percent of the base rate.	$ 70,624,000
PUBLIC UTILITY TAX	Gross receipts of gas, electric and local telephone companies. *D.C. Code Citation: Title 47, Chapter 25.*	10% of gross charges	$132,849,000
TOLL TELE-COMMUNICATIONS TAX	Gross receipts of companies providing toll telecommunication service in the District. *D.C. Code Citation: Title 47, Chapter 38.*	10% of gross charges	$ 48,280,000
INSURANCE PREMIUMS TAX	Gross insurance premiums received on risks in the District, less premiums received for reinsurance assumed, returned premiums and dividends paid to policy-holders. The tax is in lieu of all other taxes except real estate taxes and fees provided for by the District's insurance law. *D.C. Code Citation: Title 35; Title 47, Chapter 26.*	1.7% on gross premium receipts	$ 30,882,000
ESTATE TAX	The estate of every decedent dying while a resident of the District, and on the estate of every nonresident decedent owning property having a taxable situs in the district at the time of his or her death. *D.C. Code Citation: Title 47, Chapter 19.*	Tax equals the amount of credit for state death taxes allowed on the Federal Estate Tax Return.	$ 35,992,000
DEED RECORDATION TAX	The recording of all deeds to real estate in the District. The basis of the tax is the value of consideration given for the property. Where there is no consideration or where the consideration is nominal, the tax is imposed on the basis of the fair market value of the property. *D.C. Code Citation: Title 45, Chapter 9.*	1.1% of consideration or fair market value	$ 60,418,000
DEED TRANSFER TAX	Each transfer of real property at the time the deed is submitted for recordation. The tax is based upon the consideration paid for the transfer. Where there is no consideration or where the amount is nominal, the basis of the transfer tax is the fair market value of the property conveyed. *D.C. Code Citation: Title 45, Chapter 9.*	1.1% of consideration or fair market value	$44,660,000

ECONOMIC INTEREST TAX	The economic interest transfer tax is triggered by two (2) elements. These elements are 1) 80% of the assets of a corporation consist of real property located in the District of Columbia; and 2) more than 50% of the controlling interest of the corporation is being transferred. The consideration is not always equal to the assessed value of the property. The consideration is what is paid for the interest being transferred. If there is no tangible consideration, then the tax basis will be the assessed value of the property owned by the corporation.	2.2% of consideration or fair market value	$ 540,000

TOTAL GENERAL FUND TAXES: $3,029,303,000 (a) (b)

PART B – OTHER SELECTED TAXES

MOTOR VEHICLE FUEL TAX	Every importer of motor vehicle fuels, including gasoline, diesel fuel, benzol, benzene, naphtha, kerosene, heating oils, all liquefied petroleum gases and all combustible gases and liquids suitable for the generation of power for the propulsion of motor vehicles. *D.C. Code Citation: Title 47, Chapter 23.*	20¢ per gallon	$31,829,000
THE ARENA FEE	The Arena Fee is required to be paid by any person or entity who at any given point during their calendar year or fiscal year ending on June 15, is subject to any of the following: 1) D.C. corporation franchise tax; 2) D.C. unincorporated business franchise tax; or 3) The D.C. Unemployment Compensation Act, except employers who employ persons to provide personal or domestic services in a private home unless the employment is related to the employer's trade, occupation profession, enterprise, or vocation. The Arena Fee is being discontinued effective FY 2001. An entity granted exemption from D.C. corporation franchise tax or unincorporated business franchise tax, pursuant to Title II of the D.C. Income and Franchise Tax Act of 1947, as amended, is not subject to the fee, unless it has unrelated business income. An exempt entity with unrelated business income shall pay an Arena Fee based upon annual D.C. gross receipts associated with the unrelated business income for the preceding fiscal year. *D.C. Code Citation: Omnibus Budget Support Act of 1994, Title III, Section 303, April 22, 1994.*	District Gross Receipts Fees For Preceding Fiscal Year Less than $2,000,000 — $ 0 $2,000,001 to $3,000,000 — $1,000 $3,000,001 to $10,000,000 — $3,300 $10,000,001 to $15,000,000 — $6,500 Over $15,000,000 — $11,000 Note: New rate schedule, effective for payments due June 15, 2000.	$ 12,192,000

Source of General Fund Revenue Amounts: D.C. Comprehension Annual Financial Report, FY 2000, p. 76.
(a) Amount excludes transfers to the Convention Center Fund.
(b) Excludes revenue from the hotel occupancy tax that was discontinued, effective October 1, 1998.
Prepared by the Office of Research and Analysis. 02/01/00.

TABLE 26
Yearly Differences and Yearly Percentage Differences 2000 - 2002
($ Thousands)

Revenue Source	FY 2000 Actual	FY 2001 Rev. (5/01)	FY 2002 Rev. (5/01)	Difference 00/01	Difference 01/02	Pct. Diff 00/01	Pct. Diff 01/02
Real Property	610,896	606,551	680,964	(4,345)	74,413	-0.7%	12.3%
Pers. Property	70,133	54,090	53,682	(16,043)	(408)	-22.9%	-0.8%
Public Space	11,752	10,792	11,385	(960)	593	-8.2%	5.5%
Total Property	**692,781**	**671,433**	**746,031**	**(21,348)**	**74,598**	**-3.1%**	**11.1%**
General Sales (gross)	640,212	704,000	751,037	63,788	47,037	10.0%	6.7%
Convention Ctr Transfer	(54,524)	(61,248)	(65,340)	6,724	4,092	12.3%	6.7%
General Sales (net)	585,688	642,752	685,697	57,064	42,945	9.7%	6.7%
Alcohol	4,779	4,940	4,810	161	(130)	3.4%	-2.6%
Cigarette	17,177	17,587	17,000	410	(587)	2.4%	-3.3%
Motor Vehicle	36,693	31,904	31,000	(4,789)	(904)	-13.1%	-2.8%
Total Sales	**644,337**	**697,183**	**738,507**	**52,846**	**41,324**	**8.2%**	**5.9%**
Ind. Income	1,077,346	1,041,691	1,112,524	(35,655)	70,833	-3.3%	6.8%
Corp. Franchise	190,594	267,500	181,100	76,906	(86,400)	40.4%	-32.3%
U.B. Franchise	70,624	71,282	67,453	658	(3,829)	0.9%	-5.4%
Total Income	**1,338,564**	**1,380,473**	**1,361,077**	**41,909**	**(19,396)**	**3.1%**	**-1.4%**
Public Utility	132,849	144,850	152,480	12,001	7,630	9.0%	5.3%
Toll Telecomm.	48,280	53,225	59,000	4,945	5,775	10.2%	10.9%
Insurance Prems.	30,882	32,000	33,000	1,118	1,000	3.6%	3.1%
Total Gross Rec.	**212,011**	**230,075**	**244,480**	**18,064**	**14,405**	**8.5%**	**6.3%**
Estate	35,992	45,670	29,887	9,678	(15,783)	26.9%	-34.6%
Deed Recordation	60,418	69,481	69,481	9,063	0	15.0%	0.0%
Deed Transfer	44,660	53,592	53,592	8,932	0	20.0%	0.0%
Econ. Interests	540	500	500	(40)	0	-7.4%	0.0%
Total Other Taxes	**141,610**	**169,243**	**153,460**	**27,633**	**(15,783)**	**19.5%**	**-9.3%**
TOTAL TAXES	**3,029,303**	**3,148,407**	**3,243,555**	**119,104**	**95,148**	**3.9%**	**3.0%**
Licenses & Perm.	43,754	41,165	43,336	(2,589)	2,171	-5.9%	5.3%
Fines & Forfeits	53,216	52,990	60,040	(226)	7,050	-0.4%	13.3%
Charges/Services	37,257	63,111	49,928	25,854	(13,184)	69.4%	-20.9%
Misc. Revenue	120,896	53,883	72,030	(67,013)	18,147	-55.4%	33.7%
TOTAL NON-TAX	**255,123**	**211,149**	**225,334**	**(43,974)**	**14,184**	**-17.2%**	**6.7%**
Lottery	69,450	69,000	70,000	(450)	1,000	-0.6%	1.4%
Federal Project Funds	23,576	30,045	17,000	6,469	(13,045)	27.4%	-43.4%
TOTAL OTHER	**93,026**	**99,045**	**87,000**	**6,019**	**(12,045)**	**6.5%**	**-12.2%**
GENERAL FUND	**3,377,452**	**3,458,601**	**3,555,889**	**81,149**	**97,288**	**2.4%**	**2.8%**

TABLE 27

Local Fund Revenues, FY1990-FY2000

($ Thousands)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Real Property	664,591	801,876	820,892	928,322	730,641	654,284	624,382	617,694	616,935	597,566	610,896
Personal Prop.	62,584	69,899	65,609	67,085	62,437	61,305	65,201	60,392	68,475	73,928	70,133
Public Space	9,963	10,103	16,818	16,256	17,931	14,754	12,052	9,513	10,030	8,056	11,752
Total Property	737,138	881,878	903,319	1,011,663	811,009	730,343	701,635	687,599	695,440	679,550	692,781
General Sales and Use	466,557	451,582	442,496	410,068	458,555	485,651	467,527	482,354	525,087	541,573	585,688
Alcohol	6,136	6,541	5,835	5,289	4,878	4,930	5,100	5,460	4,702	4,821	4,779
Cigarette	9,178	10,426	17,065	20,845	21,721	20,117	18,676	18,946	17,592	17,107	17,177
Motor Vehicle Fuel	30,207	30,114	28,586	34,780	36,107	34,617	N/A	N/A	N/A	N/A	N/A
Motor Vehicle Excise	26,043	23,555	22,108	24,268	27,456	30,440	31,668	30,271	29,838	31,329	36,693
Hotel Occupancy	8,702	8,786	8,660	9,485	8,757	8,352	7,420	3,806	5,369	(26)	0
Total Selective Sales	80,266	79,422	82,254	94,667	98,919	98,456	39,088	58,483	57,501	53,231	58,649
Ind. Income	637,910	615,746	620,208	589,521	650,660	643,676	689,408	753,475	861,505	952,156	1,077,346
Corp. Franchise	112,273	102,767	62,751	105,038	113,981	121,407	123,114	144,563	170,029	163,699	190,594
U.B. Franchise	27,468	30,512	25,126	35,960	36,227	39,272	31,031	38,942	45,767	53,896	70,624
Total Income	777,651	749,025	708,085	730,519	800,868	804,355	843,553	936,980	1,077,301	1,169,751	1,338,564
Insurance	33,816	33,338	31,785	32,187	31,208	34,703	33,121	42,625	37,096	26,944	30,882
Public Utility	74,601	86,239	115,297	127,245	134,228	131,012	144,842	141,901	141,069	128,472	132,849
Toll Tele. Tax	19,156	22,985	33,110	37,807	39,958	44,554	45,464	52,994	56,732	51,874	48,280
Health Care Prov. Fee	0	0	0	32,354	27,708	175	11,530	(8,278)	1,740	0	0
Public Safety Fee	0	0	0	0	10,097	468	0	0	0	0	0
Total Gross Receipts	127,573	142,562	180,192	229,593	243,199	210,912	234,957	229,242	236,637	207,290	212,011
Estate	23,497	26,970	29,922	38,680	11,714	16,807	32,175	27,314	32,256	26,247	35,992
Deed Recordation	35,477	19,953	17,831	20,245	23,547	22,691	33,099	30,821	53,863	70,398	60,418
Deed Transfer	30,968	18,815	19,944	21,506	21,980	21,826	26,701	27,162	42,597	47,001	44,660
Economic Interests	0	1,525	257	911	262	0	10	10,081	11,166	3,687	540
Total Other Taxes	89,942	67,263	67,954	81,342	57,503	61,324	91,985	95,378	139,882	147,333	141,610
TOTAL TAXES	**2,279,127**	**2,371,732**	**2,384,300**	**2,557,852**	**2,470,053**	**2,391,041**	**2,402,521**	**2,490,036**	**2,731,848**	**2,798,728**	**3,029,303**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Business Licenses & Permits	15,711	15,799	21,123	25,868	29,202	29,943	29,663	28,268	31,050	28,607	24,929
NonBusiness Licenses & Permits	16,574	17,198	20,733	18,696	19,896	17,640	19,737	17,221	17,073	17,927	18,825*
Total Licenses & Permits	32,285	32,997	41,856	44,564	49,098	47,583	49,400	45,489	48,123	46,534	43,754
Fines and Forfeitures	48,542	53,026	51,860	51,845	48,107	42,447	40,792	51,664	53,177	47,688	53,216
Parking Meters	10,947	12,558	13,468	13,229	12,954	12,889	9,681	5,766	7,082	12,784	11,721
Other Charges	38,789	39,113	43,952	39,674	39,150	39,798	36,353	38,044	27,670	18,271	25,536
Total Charges for Services	49,736	51,671	57,420	52,903	52,104	52,687	46,134	43,810	34,752	31,055	37,257
Interest Income	24,989	26,645	23,255	7,171	7,995	17,994	13,917	18,599	32,478	41,289	12,779
Unclaimed Property	1,960	6,573	15,303	12,614	13,904	13,856	16,230	17,688	25,908	31,511	28,042
Other Revenues	14,041	15,216	13,693	12,975	25,353	21,984	11,870	34,642	40,750	13,940	61,337
Total Misc. Revenues	40,990	48,434	52,251	32,760	47,252	53,834	42,017	70,919	99,136	86,740	104,847
TOTAL NON TAX REVENUES	**171,553**	**186,128**	**203,387**	**182,073**	**196,561**	**196,551**	**178,344**	**211,882**	**235,188**	**212,017**	**239,074**
TOTAL TAX & NON-TAX REVENUES	**2,450,680**	**2,557,860**	**2,587,687**	**2,739,925**	**2,666,614**	**2,587,592**	**2,580,865**	**2,701,918**	**2,967,036**	**3,010,745**	**3,268,377**
Lottery Transfer	48,875	45,700	48,500	66,875	69,050	85,100	75,250	69,200	81,300	64,225	69,450
Federal Payment	506,966	625,231	643,772	635,930	647,930	660,000	660,000	665,702	198,000	0	23,576
Tobacco Settlement	0	0	0	0	0	0	0	0	0	0	16,049
TOTAL GENERAL FUND REVENUE	**3,006,521**	**3,228,791**	**3,279,959**	**3,442,729**	**3,383,594**	**3,332,692**	**3,316,114**	**3,438,467***	**3,246,336**	**3,074,970**	**3,377,452**

Source: Comprehensive Annual Financial Report (various years) ; amounts for FY 1998 and 2000 are reported net of transfers to the Convention Center Fund. Note: FY 1997 Total Revenue includes $1.647 million from the sale of surplus property.

* Non-Business Licenses was derived from the difference between the total for Licenses and Permits and the reported R Stars Business Licenses and Permits Total.

TABLE 28
Non-Tax Revenue, by Source, FY 2000-2002
($ Thousands)

Comptroller Object Code	Object Title	Actual FY 2000	Revised Estimate FY 2001	Original Estimate FY 2002
BUSINESS LICENSES AND PERMITS				
3001	Insurance License	2,232.0	1,700.0	1,500.5
3003	Professional License	24.3	0	0
3006	Hackers License	269.6	270	270
3007	Security Broker Fee	1.2	2,183.0	2,183.0
3009	Self-Unloading Permit	758.6	752	771
3010	Other Business License	4,708.7	4,398.0	4,453.0
3011	Occupational and Professional License	9.8	0	0
3012	Building Structures & Equipment	9,439.3	8,068.0	8,270.0
3013	Certificate of Occupancy	280.1	260	267
3014	Refrigeration & Plumbing Permit	1,252.2	1,200.0	1,230.0
3015	Electrical Permit	1,380.6	1,300.0	1,333.0
3016	Public Space Excavation Permit	364.8	300	308
3017	Alcoholic Beverage License	2,916.3	2,805.0	1,224.0
3018	Healing Arts	3	0	0
3020	Boxing/Wrestling	59.3	55	56
3021	Vendor Bonds	1,228.8	1,300.0	1,300.0
4879	Investment Advisors Act	0	359	2,034.0
TOTAL BUSINESS LICENSE AND PERMITS		**24,928.6**	**24,950.0**	**25,199.5**
NONBUSINESS LICENSES & PERMITS				
3100	Drivers License	1,872.4	1,850.0	1,850.0
3110	Bike Registration	2	2.3	2.3
3120	Boat Registration	129.1	143	143
3130	Other Nonbusiness License & Permits	71.6	50	51
3140	Reciprocity Permit	90.2	90	90
3150	personalized Tags-RSC 9100	41.8	0	0
3150	DCTC Issuance-RSC 9100	351.9	0	0
3150	Temp Tags-RSC 9100	435.4	0	0
3150	Transfer Tags-RSC 9100	68.3	0	0
3150	Motor Vehicle Registration	15,704.1	14,080.0	16,000.0
N/A	Other	59	0	0
TOTAL NONBUSINESS LICENSES & PERMITS		**18,825.8**	**16,215.3**	**18,136.3**
TOTAL LICENSES & PERMITS		**43,754.4**	**41,165.3**	**43,335.8**

FINES & FORFEITURES				
5000	Hackers Fines	10.9	18	15
5010	Traffic Fines- RSC 1501	43,798.8	44,872.0	44,000.0
5010	Red light Cameras	7,078.9	6,000.0	6,000.0
5010	Speeding Cameras	0	0	8,000.0
5020	Sale of Abandoned Property	0.7	0	0
5030	Booting Fees	660.4	1,260.0	1,175.0
5040	Towing Fees-RSC 1505	612.5	500	500
5050	Impoundment Fees-RSC 1506	233.1	240	300
5060	Fines/Forfeitures	784.6	100	50
N/A	Other	36	0	0
TOTAL FINES & FORFEITURES		**53,215.9**	**52,990.0**	**60,040.0**
MISCELLANEOUS				
3320	Rentals Others	0	0	75
5300	WASA - P.I.L.O.T.	6,157.9	6,402.0	7,050.0
5600	Interest Income	12,779.3	25,000.0	25,820.0
6100	Sale of Surplus Prop.	537.6	400.0	1,922.9
6101	Bus Shelter Advertisement	1,482.8	1,500.0	1,500.0
6103	Reimbursements	9,692.6	8,003.0	8,003.0
6106	Other Revenue	14,683.0	2,931.0	3,143.4
6106	Miscellaneous Other Rev	82.6	64.5	67.2
6106	Employees Cafeteria	81.4	8.0	0.0
6107	Civil Infractions	479.9	546	560
6111	Other Revenue	4,666.7	0	0
6112	Hold	12.7	0	0
6118	Prior Year Cost Recovery	-83.5	0	0
6199	Prior Year FMS Check Cancels	1.8	0	0
3022?	Keg registration Fund	45.5	28.5	67
5700?	Unclaimed Property Internal Audit	28,042.4	9,000.0	23,822.0
N/A	Other	23,495.0	0	0
N/A	General Obligation Bonds	2,689	0	0
TOTAL MISCELLANEOUS		**104,847**	**53,883.0**	**72,030.0**
CHARGES FOR SERVICES				
3202	Boiler Inspection Permits	65	56	57
3203	Smoke Regulation Permits	3.5	0	0
3204	Elevator Inspections	346	320	328
3205	Rental Accommodations	2,385.1	0	0
3206	Fingerprints/Photos	51.6	33	33

3207	Charges for Services/Other	1,149.3	939.7	926
3208	Reproduction of Reports	1,331.6	909	860
3209	Emergency Ambulance	5,223.8	5,000.0	5,000.0
3210	Transcript of Records	228.4	235	235
3211	Firearm User Fee	5.7	5.0	6.3
3212	Police Hauling/Storage	17.3	20	20
3400	Parking Meters	11,721.0	9,579.0	8,474.0
3320	Right-of-Way Rentals	3,047.3	30,000.0	18,000.0
3214	Motor Vehicle Inspect-RSC 1258	478.7	0	0
3215	Motor Vehicle Titles	1,558.6	1,500.0	1,500.0
3216	Solid Waste Disposal Fees	479.5	1,200.0	1,000.0
3219	Wharves & Markets	29.2	28	29
3220	Surveyor Fees	198.1	236	239
3221	Recordation Fee-RSC 1275	3,346.7	3,543.0	3,543.0
3222	Corp Recordation	3,669.7	3,500.0	3,588.0
3223	Parking Fees/Permits	1,027.5	1,388.6	1,447.9
3224	St & Gutter Assessment-1319	1.4	0	0
3227	Condo/Coop Certificate	0	4	4
3228	Condo Registration	12.7	8.8	6
3234	Other Charges	1.7	7.4	0
3210	Transcript of Records	0.1	118.1	0
3210	Tax Certificates	182.5	0	0
3210	Duplicate Bill Fees	3.7	0	0
3320	Lease Portfolio	0	1,241.5	1,328.4
6108	COCOT Registration	14.7	15	19
6109	VHS Tape Budget Fee	2.1	0	0
3201	Home Occupation License	119	30	122
3200	TELECO Registration	56	58	62
6111	Land rent	0	0	0
N/A	WASA-Stormwater	0	3,100.0	3,100.0
N/A	Other	499	0	0
TOTAL CHARGES FOR SERVICES		**37,256.5**	**63,111.1**	**49,927.6**
TOTAL NON TAX REVENUE		**239,073.5**	**211,149.4**	**225,333.9**

OTHER

3235	Tobacco Settlement	16,049	0	0
6104	Lottery Administration	69,450	69,000	70,000
N/A	Federal Project Fund	23,576	30,045	17,000
TOTAL OTHER		**109,075**	**99,045**	**87,000**

APPENDIX

D.C. Tax Expenditures

In accordance with D.C. Law 13-161, Tax Expenditure Budget Review Act of 2000, this report presents a pilot study of District tax expenditures, including estimates of revenue loss for those tax expenditures for which there is sufficient information. The report also outlines a model for completing a full tax expenditures study.

Defining Tax Expenditures

Tax expenditures are revenue losses due to preferential treatment accorded through provisions of the District's tax laws. Those provisions include exclusions, exemptions, deductions, allowances, credits, deferrals, and tax rates. Tax expenditures are alternatives to other policies such as direct spending, grants, and regulations that could achieve a public purpose.

While opinions vary about what baseline tax structure should be used to gauge whether a preferential exception constitutes a tax expenditure, this pilot study defines tax expenditures as preferential tax treatments that reduce a taxpayer's liability to the District by providing economic incentives or tax relief to particular classes of persons or entities. This approach avoids having to make judgments about what is a "normal" tax structure.

The Pilot Study and Future Study

The pilot study focuses primarily on tax expenditures for the real property, individual income and corporation franchise taxes for which there is sufficient information to make an initial estimate of revenue loss. Table I includes estimated tax expenditures for the current fiscal year. Table II includes other tax expenditures required to be estimated as part of a complete study. During the course of refining a future study it is likely that additional expenditures will be identified.

D.C. Law 13-161 requires a complete tax expenditure budget as part of the FY 2003 budget submission with biennial estimates provided thereafter. That future study is to include not only the estimated revenue loss for each tax expenditure for the current and next two fiscal years but also an analysis of whether each expenditure is meeting its objective and the effect of the expenditure on the distribution of the tax burden and the administration of the tax system.

A full tax expenditure study entails using several data sources and types of analyses. To estimate the revenue loss from the individual income, franchise, and personal property tax expenditures, it will be necessary to draw statistical samples of District tax returns and, for the individual income tax, the attached federal returns. Most of the requisite data on individual income tax deductions, for example, are not saved electronically, and manual sampling and data entry will be required. In many cases, the full study will have to rely on aggregate data from federal tax returns and national tax expenditure estimates made by the Congressional Joint Committee on Taxation or the federal Office of Management and Budget. Sales tax expenditures will have to be derived from a variety of non-tax sources such as federal statistical agencies and private-sector industry associations.

Data for determining the performance of the tax expenditures in meeting their objectives are seriously limited, as has been discovered by the U.S. Treasury Office of Tax Analysis. Capturing the effects of preferential tax treatment over time presents the greatest challenge. The federal government will be trying to improve data available for this analysis over the next several years. Finding longitudinal data for the District's relatively small, open economy will be much more difficult. Meeting the other two mandates of D.C. Law 13-161, analyzing tax expenditure effects on tax burdens and administration, will take many resources but does not pose the same technical problems.

Findings

From the pilot study, a number a broad conclusions can be drawn:

The District has instituted a wide range of tax expenditures to further certain policy goals.

- Income, sales, and property taxes are the most likely taxes to include tax expenditures.
- The District could raise significant revenue through the elimination of tax expenditures. However, this may also require additional expenditures or a change in public priorities.
- The use of tax expenditures to encourage certain investments or induce behavioral changes does not necessarily mean that public policy goals will be achieved. The tax expenditures may be an inadequate reward or the expenditure may be structured in a manner that makes it difficult for intended beneficiaries to qualify. On the other hand, tax expenditures may be too broadly targeted, thus going beyond what is actually needed to change behavior.
- Tax expenditures typically have no sunset provisions.
- In some cases, the District provides tax expenditures at the direction of the federal government or through conformity with federal tax policy.

Table I

Tax Expenditure Estimates for FY 2001 by Objective Category

Objective Category*	Tax Type	Provision	Estimate
Housing	**Real Property**	Homestead deduction	$25,000,000
		Trash credit	$1,100,000
	Sales and Use	Exemption of sale of residential utility and other energy services	$30,000,000
		Exemption of sale of residential cable television service	$3,000,000
Education	**Real Property**	General and specific real property tax exemptions for educational entities or educational use	$34,750,000
Health / healthcare	**Real Property**	General and specific real property tax exemptions for healthcare entities or use	$2,344,000
	Insurance Tax	Exemption of Blue Cross/Blue Shield	$890,000
Economic Development	**Real Property**	Supermarket tax incentive	$0
	Sales and Use	Exemption of sales to utility companies Supermarket tax incentive	$14,000,000 $0
		Gallery Place development	$7,000,000
	Franchise taxes	Economic development zone credits	$80,000
Income Security & Social Services	**Real Property**	General and specific real property tax exemptions	$9,000
		Senior citizen real property tax relief	$14,000,000
	Individual Income	Child and dependent care credit	$2,500,000
		Earned income tax credit	$17,600,000
		Low income credit	$5,100,000
	Insurance tax	Exemption of annuity premiums	$1,100,000
Cultural Enrichment	**Real Property**	General and specific real property tax exemptions	$23,000,000
Public Safety	**Real Property**	Police Housing Credit	$5,000

* No tax expenditures were identified under the objective "Environmental Protection"

Table II
Additional Tax Expenditures by Tax Type

Individual Income Tax

- Police housing credit
- Exclusion of social security income
- Partial exclusion of pension or annuity income
- Homeowner and rental property tax credit (Schedule H)
- Exclusion of interest on U.S. obligations
- Deductibility of medical and dental expenses
- Deductibility of real estate taxes
- Deductibility of home mortgage interest
- Deductibility of charitable contributions
- Deductibility of job expenses
- Deductibility of casualty and theft losses
- Exclusion of interest on bonds of states and localities
- Incorporation of other federal tax expenditures

Corporate Franchise Tax

- General exemptions
- Exclusion of parent depository institution loan income
- Exclusion of interest on D.C. bonds and notes
- Deductibility of charitable contributions

Unincorporated Business Franchise Tax

- General exemptions
- Exclusion of interest on D.C. bonds and notes
- Deductibility of charitable contributions

Real Property

- Historic Property Tax Relief
- Lower Income homeownership tax abatement
- Property tax deferral
- Tax deferral for the Bureau of National Affairs

Personal Property Tax

- Exclusion of personal property of religious, scientific, charitable, educational entities, and hospitals from taxation
- Works of art lent to the National Gallery of Art
- Exclusion of public utility property
- Exclusion of telecommunication company property
- Supermarket incentive
- High-tech incentive

Sales and Use Tax

- Sales to the federal government
- Sales to state and local governments
- Sales to semi-public institutions
- Sales of energy products used in manufacturing
- Sale of material for use in war memorials
- Food sold at cost by non-profits
- Food and drinks sold by a senior center to residents
- Sales to § 501 (c)(4) organizations
- Sale of food purchased with food stamps
- Services and goods purchased by a “free” newspaper

Deed Recordation, Transfer and Economic Interest Taxes

- Transfers of real property to or from the federal government
- Transfers of real property to or from an entity exempt from real property tax where the exempt use will continue after sale
- Transfer of real property by an entity exempt by act of Congress where use will remain the same
- Transfers of real property within families
- Transfer of real property to a qualifying lower income homeownership household
- Transfer of real property to a non-profit housing entity
- Transfers of real property to or from a cooperative housing association
- Certain trust-related transfers of real property
- Transfers of a security interest in Class 1 or 2 real property that contains 5 or fewer units

Public Utility and Toll Telecommunication Taxes

Instructional television fixed service license-holders

Cigarette Tax

Sale of cigarettes by the federal or District government

Insurance Tax

Exemption of non-profit relief associations
Exclusion of annuity premiums

Definitions of Expenditure Categories

To allow for comparisons to direct forms of spending, the tax expenditures are listed under various broad categories. These are defined as follows:

1. Housing – To encourage the production and maintenance of housing or to reduce housing expenses.
2. Education – To promote development and operation of educational facilities, institutions, locally-oriented organizations or to reduce the expense of education to individuals.
3. Healthcare/Health – To promote development and maintenance of heathcare facilities, institutions or otherwise reduce expenses and increase availability of healthcare.
4. Economic Development – To encourage investment in commercial enterprises.
5. Income Security and Social Services – To address equity issues of various segments of the population and availability of social services not elsewhere classified.
6. Environmental Protection – To encourage environmental protection.
7. Cultural Enrichment – To benefit cultural and civic institutions, activities, charitable endeavors, including but not limited to national philanthropic, trade and other associations, and other entities in the District.
8. Public Safety – To promote stabilization of neighborhoods through reducing the cost of homeownership for police officers.
9. Financial Contributions to the Federal Government – Expenditures that reduce or eliminate taxes to the financial benefit of the federal government. This includes expenditures associated with international institutions and foreign governments.

Sample Descriptions of Expenditures

Real Property Tax

General and Specific Real Property Tax Exemptions

Citation: D.C. Code §47-1002

Effective Date: Varies

Description: The following categories of real property and real property owned by listed organization is exempt from real property taxation – (1) Federal property, (2) District-owned property, (3) properties of foreign governments, (4) properties belonging to the Philippines, (5) certain property exempt from taxation by act of Congress prior to December 24, 1942, (6) public art galleries, (7) public libraries, (8) buildings owned by non-profit charities, (9) non-profit hospitals, (10) buildings owned by non-profit schools, colleges, and universities, (11) buildings belonging to the National Geographic Society, American Pharmaceutical Association, the Medical Society of the District of Columbia, the National Lutheran Home, the National Academy of Sciences, Brookings Institution, the American Forestry Association, the American Tree Association, the Carnegie Institution of Washington, the American Chemical Association, the American Association to Promote Teaching of Speech to the Deaf, and other institutions exempted by Congress, (12) non-profit cemeteries, (13) churches, (14) buildings owned by religious corporations or societies, (15) pastoral residences – limit of one residence per church, (16) Episcopal residences, (17) certain administrative buildings, (18) vacant land used by an exempt organization, (19) non-profit public theatres, (20) certain non-profit housing property, (21) property and improvements of lot 800 square 1112 so long as such property is used for a Correctional Treatment Facility.

Objective: Varies.

Historic Property Tax Relief

Citation: D.C. Code §47-842

Effective Date: September 3, 1974

Description: Officially designated historic properties are eligible for assessment based on current use rather than full market value, whichever is lower.

Objective: To encourage the retention of historic properties.

Homestead Deduction

Citation: D.C. Code §47-850

Effective Date: Tax year beginning July 1, 1977; Last increase effective in tax year beginning July 1, 1990

Description: Property owners subject to District income tax are eligible for an exemption of the first $30,000 of assessed value for Class 1 owner occupied housing. Taxpayers must apply to receive this exemption and must re-apply at least every 5 years.

Objective: To reduce the relative cost of property taxes on owner-occupied housing, thereby encouraging owner-occupied housing.

Lower Income Homeownership Tax Abatement

Citation: D.C. Code §47-1002 (21) & 47-3503 (c)

Effective Date: July 21, 1983

Description: Under certain circumstances lower-income homeowners and cooperative housing residents may receive a five-year abatement of real property tax.

Objective: To expand homeownership opportunities for lower income families to the maximum extent possible at the lowest direct cost to the District of Columbia.

Metropolitan Police Housing Assistance Program

Citation: D.C. Code §45-2226

Effective Date: February 23, 1994

Description: Police officers who are first-time homebuyers in the District are eligible for a real property tax credit of 80 percent the first year, 60, 40, 20, and 20 percent each succeeding year respectively.

Objective: To encourage police officers to purchase homes in the District.

Property Tax Deferral

Citation: D.C. Code §47-845

Effective Date: June 1, 1982

Description: Class 1 real property owners who experience an increase in property tax liability in excess of 10 percent may defer the amount above ten percent. Interest is charged at a rate of 8 percent. The total deferral may not exceed 25 percent of the assessed value of the property.

Objective: To reduce the impact on class 1 property owners of large increases in property tax liability.

Senior Citizen Property Tax Relief

Citation: D.C. Code §47-863

Effective Date: Tax year beginning July 1, 1991

Description: Class 1 real property owners age 65 or older with household adjusted gross income of $100,000 or less are eligible for a 50 percent reduction in property tax.

Objective: To reduce the real property tax burden of senior citizens.

Supermarket Tax Incentive

Citation: §47-3802

Effective Date: June 26, 2000

Description: A ten-year exemption from real property taxation is available in the case of new construction or major rehabilitation of a supermarket.

Objective: To encourage the development of supermarkets.

Tax Deferral for the Bureau of National Affairs

Citation: D.C. Code §47-845.1

Effective Date: April 9, 1997

Description: Provides for a ten-year deferral of property for the Bureau of National Affairs.

Objective: \To provide an incentive for the Bureau of National Affairs to maintain and expand its business presence in the District.

Trash Collection Credit for Condominiums and Cooperatives

Citation: D.C. Code §47-871 to §47-874

Effective Date: October 2, 1990

Description: Real property owners and cooperatives receive a credit against real property tax to compensate for not receiving public trash pick-up services. In order to receive the credit, the condo building or cooperative must have 4 or more units.

Objective: To compensate condo and cooperative property owners for not receiving trash pick-up service.

Corporation Franchise Tax

General Exemptions

Citation: D.C. Code § 47- 1802.1

Effective Date: July 16, 1947

Description: The following categories of organizations are exempt from the corporation franchise tax: (1) Labor organizations, (2) fraternal beneficiary societies, (3) nonprofit cemetery companies, (4) organizations organized and operated to a substantial extent in the District exclusively for religious, charitable, scientific, literary, or educational purposes, (5) business leagues and boards, (6) nonprofit civic organizations operated exclusively for the promotion of social welfare, (7) insurance companies and companies which guarantee the fidelity of individuals, (8) companies formed for the exclusive purpose of holding property titles for other exempt organizations under this chapter, (9) corporations organized under acts of Congress, if instrumentalities of the United States and if exempt from federal taxes (such as federal credit unions), (10) voluntary employees' beneficiary associations with no non-benefit payment to individuals and with at least 85 percent of income for the purpose of benefit payments and expenses, (11) voluntary employees' beneficiary associations whose members are U.S. or D.C. employees, and (12) pooled real estate investment funds which acquire and collect income from real property for transmittal to the exempt organization to pay benefits under a qualified pension, profit-sharing, or stock-bonus plan, a government pension plan or a federal, state or local government pension plan.

Objective: To promote the activities engaged in by the various organizations.

Exclusion of Parent Depository Institution Loan Income

Citation: § 47-1803.2

Effective Date:

Description: The gross income to the parent depository institution from an International Banking Facility time deposit or loan is excluded from District gross income, provided that no expense or loss attributable to that income is allowed as a deduction and the time deposit or loan is not secured by a lien or real property in the District.

Objective: To promote the location of International Banking Facilities in the District.

Exclusion of Recreation Club Fees and Initiation Dues

Citation: § 47-1803.2

Effective Date:

Description: The dues and initiation fees of a club organized and operated exclusively for pleasure and recreation are excluded from District gross income, providing net earnings do not benefit any private individual or shareholder. Social clubs are not exempt from the corporation franchise tax and may have other income that is taxed.

Objective: To promote membership social clubs.

Exclusion of Interest on District Bonds and Notes

Citation: § 47-1803.2

Effective Date:

Description: The interest on the obligations of the District is excluded from the computation of a corporation's District gross income.

Objective: To encourage investment in District notes and bonds.

Deductibility of Charitable Contributions

Citation: § 47-1803.3

Effective Date:

Description: Contributions or gifts to or for the use of the District of Columbia if made exclusively for public purposes or any religious, charitable, scientific, literary, military, or educational institution are deductible from gross income up to an aggregate 15 percent of adjusted gross income.

Objective: To encourage corporation support of the public purpose activities of religious, charitable, educational, and other entities in the District.

Economic Development Zone Wage Tax Credit
Citation: § 47-1807.4
Effective Date: Taxable years beginning on or after December 31, 1988
Description: An incorporated business located within an economic development zone who hires certain low-income District residents is eligible for a tax credit equal to 50 percent of wages, up to a $7,500 annual maximum, paid to a qualified employee during the first 24 months of employment with that business. The employee must be a District resident whose income was no more than 150 percent of federal poverty level for the year preceding that employment. The employee must have been employed by the business for at least 760 hours before the credit is allowed, and must be paid at least the higher of the minimum wage or the prevailing wage for similar jobs. The corporation must have an employment agreement with the District that details the number and description of all jobs created by a District-government-assisted project for which the corporation is required to use the First Source Register, a file maintained by the Department of Employment Services with names of unemployed District residents who have registered. Finally, the corporation's qualification for the tax credit must be recommended by the Mayor and approved by the Council by resolution. The tax credit may be carried forward or back up to five years.
Objective: To promote employment of unemployed, low-income District residents in targeted economic development areas.

Economic Development Zone Workmen's Compensation Insurance Tax Credit
Citation: § 47-1807.5
Effective Date: Taxable years beginning on or after December 31, 1988
Description: Corporations who meet the same requirements described under the Economic Development Zone Wage Tax Credit are also eligible for a tax credit equal to 50 percent of the workmen's compensation insurance premiums attributable to low-income employees. The employees also must meet the same criteria as for the Wage Tax Credit. This tax credit also may be carried forward or back up to five years.
Objective: To promote employment of unemployed, low-income District residents in targeted economic development areas.

Economic Development Zone Child Care Center Rent Tax Credit
Citation: § 47-1807.6
Effective Date: Tax years beginning on or after December 31, 1988.
Description: Corporations who meet the same requirements described under the Economic Development Zone Wage Tax Credit and who have taxable income that includes rent charged to a licensed, non-profit child development center are also eligible for a tax credit equal to the amount by which the fair market value of the space leased to the licensed center exceeds the rent charged by the business to the center. This tax credit may be carried forward or back up to five years.
Objective: To promote the provision of licensed group child care by businesses who are located in targeted economic development areas and who hire unemployed, low-income District residents.